THE PHILIPPINE ECONOMY AND THE UNITED STATES

STUDIES IN PAST AND PRESENT INTERACTIONS

edited by
Norman G. Owen

AN: MEKIS
35281

THE UNIVERSITY OF MICHIGAN

CENTER FOR SOUTH AND SOUTHEAST ASIAN STUDIES

MICHIGAN PAPERS ON SOUTH AND SOUTHEAST ASIA

Editorial Board

Alton L. Becker
Karl L. Hutterer
John K. Musgrave
Peter E. Hook, Chairman

Ann Arbor, Michigan
USA

THE PHILIPPINE ECONOMY AND THE UNITED STATES

STUDIES IN PAST AND PRESENT INTERACTIONS

edited by

Norman G. Owen

Ann Arbor
The University of Michigan
Center for South and Southeast Asian Studies

Michigan Papers on South and Southeast Asia
Number 22
1983

Library of Congress Catalog Card Number: 82-74314

ISBN 0-89148-024-2 (cloth)
ISBN 0-89148-025-0 (paper)

Copyright

1983

by

Center for South and Southeast Asian Studies
The University of Michigan

All rights reserved

Publication of this volume was made possible in part by financial assistance from the Luce Fund for Asian Studies and the Business and International Education Program, Center for South and Southeast Asian Studies, The University of Michigan.

Printed in the United States of America

DS
501
M582
no.22

CONTENTS

Contributors vii

Preface ix

Acknowledgments xv

"Manila Americans" and Philippine Policy:
The Voice of American Business
Frank H. Golay 1

America's "Permissive" Colonialism: Japanese
Business in the Philippines, 1899-1941
Grant K. Goodman 37

The Philippines as an Example of the Ford Motor
Company's Multinational Strategy
Harold C. Livesay 63

Export-oriented Industrialization, the International
Division of Labor, and the Rise of the
Subcontract Bourgeoisie in the Philippines
Robert T. Snow 77

An Analysis of Reactions of Investors to the Recent
Investment Climate in the Philippines
Victor M. Ordoñez 109

Taming the American Multinationals
Frank H. Golay 131

Philippine-American Economic Interactions:
A Matter of Magnitude
Norman G. Owen 177

CONTRIBUTORS

FRANK H. GOLAY is Professor Emeritus of Economics and Asian Studies at Cornell University, where he has also served as Director of the Southeast Asia Program, the Philippines Project, and the London-Cornell Project. His publications include *The Philippines: Public Policy and National Economic Development*, *The United States and the Philippines* (editor and coauthor), and *Underdevelopment and Economic Nationalism in Southeast Asia* (editor and coauthor), as well as many articles on economics and economic history.

GRANT K. GOODMAN is Professor of History at the University of Kansas, Lawrence. He is a specialist in both Japanese and Philippine history. Among his publications on the Philippines are *Davao: A Case Study in Philippine-Japanese Relations*, *Four Aspects of Philippine-Japanese Relations, 1930-1940*, and, most recently, *From Bataan to Tokyo: Diary of a Filipino Student in Wartime Japan, 1943-44*.

HAROLD C. LIVESAY received his Ph.D. in economic and business history from The Johns Hopkins University. Currently he is Professor of History and chairman of the History Department at Virginia Polytechnic Institute. Among his numerous publications are *American Made: Men Who Built the American Economic Tradition*, *Samuel Gompers and Organized Labor in America*, and *Andrew Carnegie and the Rise of Big Business*.

VICTOR M. ORDOÑEZ, currently Senior Ministerial Adviser to the Ministry of Trade, Republic of the Philippines, is on leave from De La Salle University, where he has served as Dean of the Graduate School of Business and Education and Director of the Educational Management Center, and from the Bancom Group of Companies, where he was vice-president and managing director of the Bancom Institute of Development Technology. He holds seven academic degrees, including the Ph.D., from Philippine colleges and universities, and has pursued postdoctoral studies in the United States. He has written extensively on project management, rural development, international education, and the role of private enterprise in developing countries.

NORMAN G. OWEN studied the history of Southeast Asia at the School of Oriental and African Studies (University of London) and at the University of Michigan, from which he received his Ph.D. His publications include *Compadre Colonialism: Studies on the Philippines Under American Rule* (editor and coauthor) and *Prosperity Without Progress: Manila Hemp and Material Life in the Colonial Philippines* (forthcoming). He is currently a Research Fellow in the Department of Pacific and Southeast Asian History, Research School of Pacific Studies, The Australian National University.

ROBERT T. SNOW graduated from Swarthmore College and holds a Ph.D. from Harvard University. In his dissertation he examined the impact of the Philippine export-processing zone on the new work force which it created. He spent three years as a Research Associate at the East-West Center, Honolulu, studying the social and cultural effects of transnational corporations. He is currently a Social Science Researcher with the Research and Planning Department of the Maryknoll Fathers, Maryknoll, New York.

PREFACE

A dozen years ago, when American interest and academic investment in Southeast Asia were at their height, a remarkable number of students of the Philippines were enrolled at the University of Michigan. Once a week several of us met for a seminar at the home of Professor David Joel Steinberg, and there we learned about the history of Philippine-American relations, not just from him, but from each other. We were not mature professionals, but we had access to some remarkably good collections of printed and manuscript sources on the Philippines, and we were led by a first-rate scholar and teacher who encouraged us to regard each other as colleagues rather than rivals. The result was an experience from which we all benefited.

Selected papers from that seminar were later revised and published as *Compadre Colonialism*.* In the introduction to that volume I noted in the papers certain "recurrent themes and mutual presuppositions" that "reflect[ed] in part the similarities in the academic experience of the authors, in part our interaction with each other." Thus, despite some differences in our interpretations of Philippine history it was possible to speak of an "underlying consensus," which was reflected in the title of the volume.

---

*Norman G. Owen, ed., *Compadre Colonialism: Studies on the Philippines Under American Rule*, Michigan Papers on South and Southeast Asia, no. 3 (Ann Arbor: The University of Michigan, Center for South and Southeast Asian Studies, 1971).

By the late 1970s the United States was turning its back on Southeast Asia and "area centers" were no longer expanding, but fighting to hold on to what they had. At this juncture the Luce Fund for Asian Studies entered the picture, supporting with substantial grants various projects for the study of interactions between Asia and the United States. One of these grants was awarded to the University of Michigan for the study of "U.S.-Philippine Interactions as Reflected in Oral Histories," a project which included the reestablishment of a regular colloquium.

Each fall term, from 1977 through 1979, we met on Friday afternoons to discuss Philippine-American interactions. This time, however, we were not limited to a handful of graduate and undergraduate students pooling their ignorance and striving to rise above it. Thanks to the Luce Fund we were able to supplement faculty and student presentations with guest speakers brought in from all over the United States; at times we even caught visitors from the Philippines who happened to be passing through the Midwest. The result was something of a cross between a lecture series and a seminar, with "imported" experts introducing new material, resident scholars (Karl Hutterer, Michael Cullinane, and myself) attempting to provide context and continuity, and other faculty and students asking the questions which stimulated discussion.

We deliberately chose to cast our net widely. Besides political history (the central theme of *Compadre Colonialism*), we touched on economics, linguistics, literature, photography, and art, anything, in fact, that might be covered by the rubric "U.S.-Philippine Interactions." Some speakers offered us polished prose or chapters of books enroute to publication, while others presented rough first drafts of preliminary outlines of tentative hypotheses; we welcomed them all. We made no effort to impose arbitrary order on this magnificent

diversity of approaches and evidence; instead, we told the students that each of them--each of us--was responsible for discovering or establishing his or her own linkages among the papers.

For all those able to attend it regularly, the colloquium was an unqualified success. But that number was necessarily limited, so we felt we ought to make the best of the papers available to a wider audience. A canvass of the participants produced, as might be expected, a wide diversity of responses to this suggestion. From the papers that eventually were submitted we selected for publication those which dealt with the topic stated in the title of this volume, *The Philippine Economy and the United States: Studies in Past and Present Interactions*. Beyond this common topic, however, the reader will discern no such "underlying consensus" as was found in *Compadre Colonialism*. The authors do not share the same "academic experience," nor, more significantly, did they all interact with each other in this colloquium, rubbing the rough corners off their divergent views. I am the only one among them to have heard all the others, and though my paper here benefits from what they have taught me, it does not represent their individual or collective views. It is not, as the introduction to *Compadre Colonialism* purported to be, my "sense of the meeting," for no such "meeting" of the authors ever occurred.

Instead, readers of this volume will be aware of contradictions, of debate, even of fundamentally irreconcilable views. While none of the authors regards the American connection as totally advantageous to the Philippine economy, there is considerable difference between those who regard it as generally significant and malign and those who suggest that it was less consequential than has been believed and more neutral, or even beneficial, in its effects. There are, of course, important policy

implications in this difference. The former perspective suggests that the best course for the Philippines in the future would be to put a greater distance between the two economies, while the latter is at least compatible with efforts to increase mutual trade and investment. But, though these perspectives have political implications, the argument on both sides is free of overt ideology. Each of us has, I believe, made an honest effort to come to terms with the difficult question of what the "special relationship" really means in the economic sphere, and it is the honesty of that effort that makes the argument worth following.

Another recurrent, though less explicit, theme permeating these papers is that of the relationship between government and private business. Of particular concern here is the political role of American enterprises in the Philippines, in their relations with both Washington and Manila. Clearly these firms have always attempted to influence both capitals; equally clearly they have not always got what they wanted. But were they generally successful, suffering only occasional and peripheral defeats, or were they essentially inconsequential, a secondary factor in shaping the economic policy of both countries? If the latter, what other interests outweighed them, to what ends? Conversely, how much have official policies emanating from either Manila or Washington dictated the nature and operations of American business in the Philippines? Has Filipino enterprise profited from "economic nationalism" or can it also flourish under a more open trade and investment regime? Does public policy shape capitalism, or is it the other way around? Though few of the papers address these questions directly, all bear on them in one way or another and thus contribute to the ongoing debate over Philippine-American economic interactions.

What we share, finally, is a feeling that these questions are important and a scholarly commitment to explore them with full respect for their complexities and ambiguities. We offer these papers to readers with the same admonition we gave to students in the colloquium: it is up to you to evaluate these conflicting views and reach what resolution you can.

ACKNOWLEDGMENTS

We acknowledge first of all our gratitude to the generosity of the Luce Fund for Asian Studies, without which the colloquium would never have taken place. Among participants in the colloquium whose papers are not included in this volume we would like to single out Karl Hutterer and Michael Cullinane (who administered the grant and chaired the colloquium), as well as Ronald K. Edgerton, Morton J. Netzorg, Bernardito Operario, Joel E. Rocamora and Aram A. Yengoyan, each of whom added to our general sense of how the economic interaction worked. We would also like to acknowledge the many contributors to the colloquium who addressed themselves to noneconomic aspects of Philippine-American interactions, work no less worthy for not being appropriate for publication in this volume. As we moved toward publication we benefited from the official labors of Janet Opdyke (Publications Editor, Center for South and Southeast Asian Studies) and the unofficial labors of Michael Cullinane and Roberta Y. Owen. Financial assistance in the later stages was provided by the Business and International Education Program of the Center for South and Southeast Asian Studies. Finally, I would like to thank all my coauthors for their patience. Most of the papers were first given in 1978-79 and revised no later than 1980; a part of the responsibility for the delay in their publication must be mine.

Norman G. Owen

"MANILA AMERICANS" AND PHILIPPINE POLICY: THE VOICE OF AMERICAN BUSINESS

Frank H. Golay

I

When William Howard Taft, a young federal district court judge, was asked by President McKinley in January 1900 to join the Philippine Commission which would provide civil government for the new colony, Taft told the president that he opposed taking the colony and was satisfied with his lot as a federal judge.[1] After some hesitation Taft agreed to serve as head of the commission and quickly gravitated to the imperialist mainstream of the Republican Party. Taft and his colleagues on the commission were busy during their first year in the Philippine Islands concocting ambitious plans for the colony. They were challenged to succeed as colonial administrators and the tasks they faced were formidable and stretched into the distant future.

McKinley enjoined the commission to extend free primary education over the Philippines and to blanket the colony with municipal governments which would serve as the principal vehicle for tutoring Filipinos in self-rule.[2] If the colony was to be retained indefinitely, Filipino nationalism, which was in fever heat at the turn of the century, would have to be dampened by a colonial government capable of winning the loyalty of Filipinos by improving governmental services and by raising the material well-being of Filipinos generally. To meet these goals, the colonial

government would require financial resources and the commission promptly turned to the task of devising a tax structure that would generate the funds needed. The commissioners also realized that continuation of American rule would depend on their success in getting the moribund Philippine economy moving, as taxes would generate needed revenues only if economic growth was maintained. To facilitate this process, the commission laid down ambitious plans for systems of roads and railroads, improvements in port facilities, and other public works.

Because they envisaged a prolonged period of colonial rule and were keenly aware of the underlying ambivalence with which Americans generally viewed the imperial enterprise, the commissioners recognized the need to create constituencies of Americans in the Philippines with a stake in indefinite retention of the colony. To do so, they assigned priority to making Manila over into a healthy, attractive, and comfortable city with an efficient administration providing the amenities found in American cities. Similar priority was assigned to a "hill station," or summer capital, to which Americans could flee the debilitating heat and humidity of Manila.

One body of Americans that never questioned the probity of American rule or the need to retain the colony indefinitely was the American component of the colonial bureaucracy, particularly career administrators at the higher levels. These Americans were paid well and lived well and they were assiduous in denigrating the capability of Filipinos to govern. By doing so they satisfied themselves that American rule must continue.

In their first report to Washington after six months in the colony, the commissioners urged that the friars, the Spanish priests of the Catholic missionary orders who comprised the principal instrument of direct rule under Spain, be replaced by Americans, and this changeover was

completed in the early years of the century.[3] American priests were not numerous, but once the Church hierarchy in the Philippines was Americanized, the prelate in Manila and the regional bishops had the ears of Church leaders in America, which amplified the voice of this constituency with a stake in continued American rule. Although relatively few in number, Protestant missionaries also magnified their contribution to retention by enlisting the American churches that supported them behind the cause.

Another constituency supporting retention was the officer corps of the United States Army. Starved for funds following the Civil War, the army shrank in size until at the outbreak of war with Spain it numbered twenty-seven thousand officers and men. Those following a career in the officer corps endured long periods without promotion while confined to isolated posts scattered over the American West. They were abruptly released from their thralldom by the war, which saw the army balloon fourfold to one hundred thousand officers and men, a level from which it did not recede thereafter. The contribution of the war with Spain and the Filipino-American War to their welfare and social status created a mystique or outlook shared by members of the officer corps which ensured that this body of Americans would support continuation of American rule.

The American constituency that Taft and his colleagues counted on to provide the core of support for indefinite retention was expected to materialize and flourish as American capital and enterprise migrated to the new colony. To ensure that this American interest would grow, the commission promptly turned to the task of devising a development strategy which would enhance the attractiveness of the colony as an outlet for American investment.

II

Although one-sixth of Philippine exports were shipped to the United States in the 1890s, when Americans in the expeditionary army arrived in the islands at the turn of the century they found few compatriots. The voice of the business community in Manila, which controlled the import trade of the colony as well as the organization of production, assembly, and marketing of major export crops and the provision of interisland shipping services, was provided by the Manila Merchants Association (MMA), in which British interests were dominant. Smaller chambers of commerce comprising national groups of businessmen existed, but their role was more social than economic. Sugar producers, predominantly Filipinos of mixed Filipino-Spanish and Filipino-Chinese heritage, were organized into influential pressure groups centered in Iloilo on Panay and on the island of Negros. Tobacco merchants and cigar manufacturers, concentrated in Manila and including a spectrum of nationalities, were organized and vocal. Finally, there was the Hispanicized and active Economic Society of Friends of the Country, which bridged officials in the colonial administration, *ilustrado* intellectuals, and businessmen of diverse nationality.[4]

As American control was extended over the islands, McKinley was ruling the Philippines under his war powers. With the exchange of ratifications of the Treaty of Paris in April 1899, however, the Constitution vested Congress with the power to make all "needful rules" for governing the colony and to decide upon its ultimate disposition. Encouraged by Republican gains in the 56th Congress, convened in December 1899, Secretary of War Elihu Root, who was responsible for the administration of the new colony under military government, drafted legislation calling upon Congress to delegate its constitutional power to govern the colony to a civil government appointed by the president. To

reassure Congress and hasten passage of the measure, McKinley announced his appointments to the Philippine Commission, which would take over administration of the colony. Root's measure, introduced by Senator John Spooner (Wisc.), proved controversial, and the Spooner bill could not be brought to a vote.[5]

The election of 1900, which William Jennings Bryan, the Democratic candidate, insisted on fighting on the "paramount issue" of imperialism, produced a substantial victory for McKinley, which Republicans generally interpreted as a mandate to rule the Philippines indefinitely. Encouraged by the election, Taft and his colleagues urged Root to try again to obtain from Congress a grant of power which would enable the commission to initiate development of the stagnant island economy. Shortly after the election the commission reported to Root that "sufficient applications to purchase public lands have been received to know that large amounts of American capital are only waiting the opportunity to invest" and proposed "that congressional authority be vested in the government of the islands to adopt a proper public land system and to sell land on proper terms."[6]

The legislative docket of the short session of the outgoing Congress was crowded with priority bills, however, and Root took no steps to revive the Spooner measure until early in January when the commission cabled:

> Passage of Spooner bill at present session greatly needed to secure best results from improving conditions. Until its passage no purely central civil government can be established, no substantial investments of private capital in internal improvements possible. . . . Sale of public lands and allowance of mining claims impossible until Spooner bill. Hundreds of American miners

on ground awaiting law to perfect claims, more coming.[7]

At this point, Root attached a modified version of the Spooner bill as an amendment to the army appropriation bill which was before the Senate. When the Spooner amendment came up in the Senate, Democratic opponents of Republican colonial policy launched a filibuster to keep the measure from coming to a vote. Facing defeat, Republican leaders of the Senate amended the measure to emasculate the authority requested by the commission in order to obtain passage of the army appropriation bill.[8]

Aware that opponents of retention were determined to prevent a blanket delegation of Congress's power to govern the colony to the Philippine Commission, the McKinley administration made plans to introduce a draft organic law, or constitution, for the colony in the new 57th Congress. Meanwhile, the commission would have to govern the Philippines under the president's restricted war powers. The day following adjournment of Congress in 1901, Root instructed the commission to recommend provisions to be included in the government measure.[9]

Concerned to get the island economy moving after four years of rebellion, war, and economic dislocation, the commission urged Congress to allow American enterprise and capital to play a major role in developing the colony. The commission proposed that the migration of these resources be induced by permitting American investors liberal access to public lands and mineral and forest resources; by empowering the commission to charter corporations and grant franchises on liberal terms; by permitting the commission to sell bonds in the United States to raise money to build ports, roads, and other public works; by amending the National Banking Act to permit American banks to operate in the Philippines; and by granting imports from the colony a substantial and nonreciprocal reduction in the American tariff.[10]

The partisan split in Congress over Philippine policy was conspicuous in the acrimonious debates in 1902 and the rough treatment given the commission's development strategy. The Payne Tariff Act of 1902 established a nonreciprocal tariff preference of 25 percent for imports from the colony and provided that duties collected on Philippine commodities would be turned over to the insular government. This concession proved meaningless, however, as Republican administrations since 1860 had raised the wall of American protection to such a high level that even a preference of 25 percent left duties that excluded most Philippine products. The Organic Act of 1902 limited the authority of the colonial government to sell bonds in the United States to finance "public improvements" at $5 million, a level not changed for fourteen years despite repeated pleas from the commission for increases. Congress ignored the banking recommendation of the commission and established stringent limits on access by individuals and corporations to public land and other natural resources which severely limited the role played by American capital and enterprise in the development of plantations, mines, and forest industries. Although every subsequent report of the commission repeated basic recommendations made in 1901, they received little attention from Congress.[11]

With their initial development strategy a shambles, Taft and his colleagues decided to concentrate their efforts on obtaining a larger trade preference for the colony. Taft returned to the States in 1904 to succeed Root as Secretary of War, a position from which he could dominate American Philippine policy as he worked for a larger tariff preference for the Philippines. Taft made no effort to conceal the purpose of his crusade. He was now a confirmed retentionist and assumed that this position was shared generally by Americans. In repeated speeches in the colony, in testimony before congressional committees, and in

speeches on behalf of Roosevelt's candidacy in 1904, he spread the message:

> If we bring them behind the tariff wall, if they see that association with the United States is beneficial to them, as I verily believe it will be, it is unlikely they will desire full independence.[12]

Thanks to Theodore Roosevelt's decisions not to seek reelection and to support Taft as his successor, Taft captured the presidency in 1908. He emphasized tariff reform in his campaign and upon taking office he called Congress into special session to revise the tariff. Taft also was prepared to use the leverage that was his as newly elected president to obtain the tariff preference he wanted for the colony. He used this leverage to reach a "gentleman's agreement" under which Republican leaders of Congress agreed to support a measure making mutual trade between the United States and the colony free of duty. In return, Taft accepted liberal absolute quotas on Philippine shipments of sugar, cigar tobacco, and cigars. With passage of the Payne-Aldrich tariff in 1909, Taft reached the goal for which he had struggled for eight years.[13] The colony now had a development strategy which ensured economic expansion and containment of Filipino nationalism and promised an influential constituency of Americans supporting indefinite retention.

The eight years required to reach agreement on a development strategy for the colony saw American enterprise and capital in the Philippines grow slowly. During the three years, 1892-1894, trade with the United States accounted for 3 percent of Philippine imports and 16 percent of exports. These ratios gradually increased over the first decade of American rule until, for the three years 1907-1909, trade with the United States accounted for 28 percent of insular exports and 18 percent of imports.

American businessmen in the Philippines were not interested in this trade as producers of export commodities, but as merchants assembling exports and as importers and wholesalers of less than one-fifth of the colony's imports.[14] As a result, American businessmen in the Philippines played a minor lobbying role as development policy was forged in Congress.

An American Chamber of Commerce (ACC) was formed in Manila as early as the late fall of 1901 when Congress was preparing to write an organic law for the colony. In December the chamber cabled McKinley urging "free entry of Philippine products, especially raw materials." The new ACC also joined with other chambers of commerce and trade associations in the Philippines to send Brewster Cameron to Washington to lobby for the largest possible nonreciprocal tariff preference for insular products. When Congress limited the preference to twenty-five cents, Manila Americans organized a mass meeting, of unknown mass, and passed a resolution protesting the disappointing preference.[15]

In anticipation of the more important Organic Act, the chamber adopted "A Memorial to Congress Suggesting Needed Legislation for the Philippine Islands," which called for the "sale and settlement" of public lands in the colony, providing access to mineral resources, "facilitating the cutting of timber on the public domain and the granting of franchises for the development of the islands and their resources," extension of American coastwise shipping policy to the colony, establishment of mutual free trade, and the admission of "coolie labor," as "native labor is inadequate and insufficient for the development of the islands."[16]

Following its lobbying efforts in 1902, the chamber lapsed into inactivity, although it continued to exist for a few years. The basic weakness of the chamber as the voice of American business in the colony is not hard to

understand. American enterprise and capital played a minor role in the laggard economic development of the Philippines over the first decade of American rule. Through the sale of bonds in the United States, the savings of Americans were flowing to the insular government and to the Manila Railroad Company and the Philippine Railway Company, which were constructing lines in the colony. The Manila Electric Railway and Lighting Company (MERALCO), operating street railways and supplying electric power to Manila and its environs, was prospering. These investments amounted to $44 million and accounted for 63 percent of all American investment in the colony in mid-1911. Most numerous were smaller American enterprises engaged in commerce, general contracting, operation of livery stables and garages, and simple manufacturing, largely in Manila. There were sixty-eight of these firms representing American investment of $10.5 million. Only one firm engaged in constructing public works accounted for American investment of as much as $1 million. Investments in "farms and plantations," mines, and lumbering accounted for $11.3 million of American investment, but, with the exception of the unprofitable San Jose sugar plantation and sugar mill on Mindoro Island, none of these enterprises represented investment of as much as $1 million. The remaining $5 million of American investment was scattered over holdings of urban real estate, one bank, several newspapers, restaurants, and other enterprises.[17]

Shortly after he joined the commission as Secretary of Commerce and Police in 1904, W. Cameron Forbes gave a reception for ACC members and afterwards recorded in his journal: "These Americans, some of whom were army sutlers, liquor dealers and others of less noble trades as well as some very good ones . . . have been very touchy because the government didn't pay any attention to them."[18] It was not long after this that the chamber disappeared.

Inasmuch as American enterprises engaged in production, assembly, and shipment of exports were few and small in scale, they played a minor role in Taft's crusade for enlargement of the colony's tariff preference. In extensive hearings on the Curtis bill of 1905, the Payne tariff preference bill of 1906, and the Payne-Aldrich tariff of 1909, and in hearings before the congressional party in the Philippines in 1905, the American voices supporting enlargement of the colony's tariff preference were those of Taft, officials in the colonial administration, and senior officials in the Bureau of Insular Affairs.[19]

United behind the Republican policy of indefinite retention, the commission remained concerned for the weakness of the voice of American business in the colony. As the United States share in insular trade increased, Americans became more active in the Manila Merchants Association until in 1907 the commission initiated a sizable annual subvention to the association to disseminate information in the United States on economic opportunities in the Philippines. During the special tariff session convened by Taft, the MMA distributed widely in the United States a pamphlet extolling "Reciprocal Trade." After passage of the Payne-Aldrich tariff, ten thousand copies of a pamphlet designed "to arouse interest in the possibilities presented in the Philippine Islands for investment of capital and for trade" were distributed abroad. It is unlikely, however, that the MMA was the voice of American business in the islands so much as it was a publicity vehicle for the insular government. When President Wilson Filipinized the commission following his election in 1912, the association's subvention was quickly terminated.[20]

Establishment of mutual free trade in 1909 was followed four years later by passage of the Underwood-Simmons tariff, which removed quantitative restrictions on Philippine shipments to the United States.[21] A year later World War I

erupted and the island economy was launched on a prolonged period of economic growth. By 1920, the value of imports into the colony from the United States reached P185 million, a seventeenfold increase over the average level of imports during the three years, 1907-1909. Insular exports to the United States also peaked in 1920 at P210 million, a ninefold increase over the average level of such exports during 1907-1909. Over the three years ending with 1921, trade with the United States accounted for two-thirds of insular imports and three-fifths of exports.

With the economy booming, little need was felt by Manila Americans--in or out of government--to change economic aspects of colonial policy, and the lobbying activities of American business interests were sporadic and of little consequence. Although Manila Americans were content with the economic relationship, following the election of Wilson they faced for the first time the threat of independence. The Democratic platform in 1912 condemned "the experiment in imperialism as an inexcusable blunder which has involved us in enormous expense, brought us weakness instead of strength," and committed the party to "an immediate declaration of the Nation's purpose to recognize the independence of the Philippine Islands as soon as a stable government can be established."[22]

After the Democrats organized the House following the congressional elections of 1910, Congressman William A. Jones (Va.) introduced a bill scheduling independence in 1921. Although the Jones measure did not come up in the regular session of the 62d congress, it was reported by the Committee on Insular Affairs in 1912 and was available for consideration in the lame duck session following the elections of that year. The "Philippine question" played no significant role in the election, which encouraged Manila Americans to believe that Wilson would not move abruptly toward independence. This assessment changed in late

December when Wilson returned to his birthplace in Virginia for a speech in which he declared: "The Philippines are at present our frontier but I hope we presently are to deprive ourselves of that frontier." Cameron Forbes reports that Wilson's words "settled down like a wet, cold blanket over the merchants and people concerned with the development of the industry of the islands." Only two months remained before the 62d Congress expired, however, and Manila Americans could only endure the threat of the first Jones bill, which did not come to a vote.[23]

Following his inauguration, Wilson convened a special session of the 63d Congress to write a new tariff, enact a personal income tax, establish the Federal Trade Commission, and create the Federal Reserve System, which left no time for the "Philippine question." Meanwhile, Congressman Jones introduced a second bill to move the colonial government to a new stage of enlarged Filipino autonomy, which included a preamble promising independence when the Filipinos demonstrated the ability to maintain a stable government. The regular session of the 63d Congress was cluttered with priority legislation, however, and there was little prospect that the second Jones bill would reach the floor. By late spring of 1914, it became evident that the House was far ahead of the Senate in disposing of pressing legislation, and its Democratic leaders decided to take up Jones's bill. After two weeks of debate, the bill passed the House with the preamble intact, but the Senate did not act on the measure in the closing weeks of the session.[24]

With the bill passed by the House and before the Senate, the Committee on the Philippines convened hearings on the bill. Taft and various members of the Philippine Commission under the Republicans were out in force to oppose the measure. Manila Americans were represented by two journalists--Martin Egan and Israel Putnam--who opposed the bill, and a coterie of American businessmen in Manila

informed the Secretary of War of their opposition by cable. The bill was reported by the committee, but it proved impossible to bring it before the Senate in the remaining days of the 63d Congress.[25]

It was clear to knowledgeable observers that Congress was disposed to deal with the "Philippine question" in the new 64th Congress and the Senate committee convened hearings late in 1915 on a bill introduced by Senator Gilbert Hitchcock (Neb.) which was modeled on the second Jones bill. Before reporting the Hitchcock measure, the Senate committee watered down the promise of independence in the preamble until it was meaningless and greatly strengthened the American executive in the new stage of government the bill provided for the colony. When the measure came before the Senate, there was widespread unhappiness among Democrats over the preamble. Republican partisans seized upon the discomfort of their Democratic colleagues to taunt them for their failure to carry out the promise of their party's 1912 platform to declare America's purpose to give independence to the colony. This situation changed abruptly when Senator James Clarke (Ark.) submitted an early independence amendment to the bill. After conferring with Wilson, Clarke modified his amendment and the president endorsed the measure. The Clarke amendment was added to the Hitchcock bill by the vote of the vice-president when the Senate divided equally on the amendment. Shortly thereafter, the amended bill was approved by the Senate.[26]

There was no input from representatives of Manila Americans in the hearings on the Hitchcock bill, but, following passage of the bill by the Senate, William N. Kinkaid, a lawyer active in Democratic Party politics in the Philippines, hurried to Washington to oppose the Hitchcock bill on behalf of the Catholic Church hierarchy in the colony and various business clients. The Manila Merchants Association also got into the act by

passing a resolution petitioning Congress and President Wilson to postpone legislative action on the "Philippine question" until the end of the war in Europe.[27]

The Clarke amendment was deleted from the Hitchcock bill by the House when twenty-six Democrats, most of Irish extraction from metropolitan constituencies and virtually all Catholics, refused to abide by the decision of their party's caucus to support the Clarke amendment. Subsequently, the House substituted the second Jones bill, with its promise of independence in the preamble, and it was approved by the Senate. Having passed the Jones Law, which moved the colony to a new stage of colonial government, Congress virtually ignored the "Philippine question" for six years.

III

The wartime boom sustained economic expansion in the Philippines and submerged the American-Filipino tensions so evident during Wilson's first administration. Within a year the United States was at war and Filipinos generally made it their war as well, which contributed to social stability and moderated racial tension in the colony.

The economic expansion of the war years also threatened trouble. Expenditures on imports for both consumption and investment were growing and threatened to exceed export earnings if expansion should falter. The extension of bank credit, particularly by the rapidly growing, government-owned Philippine National Bank (PNB), supported investment in new productive capacity but it also fueled inflation which promised to encroach on the prosperity enjoyed by the colony. The extent of economic dislocation attending rapid expansion was brought home to Americans and Filipinos in 1919, when expenditures abroad raced ahead of foreign exchange earnings, and insular currency reserves drained away. A major portion of the reserves were on deposit with

the PNB, but, when they were needed to defend the value of the peso, it was discovered that the bank's assets--loans to build sugar and coconut-oil mills--had become illiquid. If forced to replenish the currency reserves, the PNB would have been thrown into bankruptcy, which would have magnified the crisis in the colony.

Revelation of mismanagement of the PNB and the currency reserves initiated a wave of criticism of Filipino capabilities for self-government by insular Americans. More corrosive of racial harmony was the rampant inflation. The rising cost of living eroded the purchasing power of wages and salaries, and a series of strikes, a number of them against American firms, were attended by sporadic violence.

The economic stress occasioned by the end of the war was embarrassing to the insular government and heightened tension between Filipinos and Americans. The island economy appeared to be weathering the economic transition to a peaceful world, however, when it was hit by the worldwide slump in commodity prices in the summer of 1920. During the last half of that year, the weighted index of the prices of major agricultural commodities of the colony fell by more than one-half and bottomed out in October 1921 at only one-third the level of fifteen months earlier. As a result, earnings from exports in 1921 fell to only 58 percent of the previous year. Once the currency reserves were exhausted, the insular treasury could only suspend the sale of dollars and allow the value of the peso to fall. As the peso sagged in value, criticism by Manila Americans of the colonial administration under Governor General Francis B. Harrison became shrill.[28]

The election of 1920 produced a landslide victory for the Republicans. In his annual message to the outgoing Congress a month later, President Wilson reported that the Filipinos had maintained a stable government and concluded that "it is now our liberty and our duty to keep our promise

to the people of those islands by granting them the independence they so honorably covet."[29] His message fell on deaf ears. The Republicans had no doubt that colonial rule under the Democrats had demonstrated Filipino ineptitude for self-government, and President-elect Harding was busy with plans to send a special investigating mission to the islands to expose the derelictions of Harrison and his Nacionalista Party collaborators.

The political changes under way in the States and the promise of more to come stimulated a burst of activity by the American business community in the Philippines. Americans and their enterprises had flourished during the wartime boom as producers, processors, and exporters of Philippine commodities and as importers and distributors of American products. Insular trade with the United States, which represented less than one-quarter of Philippine trade when mutual free trade was initiated in 1909, accounted for two-thirds of insular trade in 1920. As the American economic stake grew, it was felt more intensely, and the return of the Republicans to power at home was perceived by Americans in the colony as an opportunity to settle the "Philippine question" once and for all. To seize this opportunity, a new American Chamber of Commerce was brought into existence in June 1920 to amplify and focus the voice of American business in the colony.

Harding's nomination in 1920 promised an active Philippine policy which further encouraged the initiative of the American business community. Elected to the Senate in 1914, Harding succeeded to the chairmanship of the Committee on the Philippines when the Republicans organized the Senate in 1919 and was expected to maintain an interest in insular affairs. For many Americans in the colony, his nomination confirmed that the time was opportune to remove the uncertainty which clouded the future relationship between the Philippines and the United States.

To capitalize on this consensus, the *Manila Times*, recently acquired by George H. Fairchild, an American active in modernizing the insular sugar industry during the wartime boom, proposed that "the Philippine Islands should be made a territory of the United States and that full American citizenship be granted to Filipinos." The *Times* invited the American community to rally behind this proposition, and a few days later virtually the entire membership of the new American Chamber of Commerce endorsed a resolution calling for establishment of a "territorial government under the sovereignty of the United States."[30] Throughout the continental expansion of the United States, establishment of a territorial government by Congress had been the first step in a process culminating in the admission of a territory to the Union as a state or states. Territorial status had been granted to Hawaii. Why shouldn't the Philippines receive the same treatment?

The agitation by Americans for territorial status was welcome to many influential Filipinos, some because they were annexationists at heart and others because they longed for an American protectorate and assurance that duty-free access to the American market would continue. As a result, Filipino opposition to the territorial-status campaign was muted, which encouraged the campaign's organizers. The enthusiasm of Manila Americans for their new crusade also was encouraged by a parade of senators and congressmen who junketed to the colony following adjournment of Congress in 1920, affording opportunities for spokesmen of the American community to make their case for territorial status.

The movement for territorial status peaked in the spring of 1921 when Harding convened the incoming 67th Congress to write a new tariff. Manila Americans were thrilled when Congressman Horace Towner of Iowa, the chairman of the Committee on Insular Affairs who had visited the colony the previous summer, introduced a joint

resolution opening the prospect of territorial government for the Philippines.[31] Despite the leadership of their chairman, however, the members of the committee did not bother to report the measure, which deflated the soaring hopes of the American community.

Disappointed when Congress failed to take up the Towner resolution, the American business community found consolation in the Fordney-McCumber tariff of 1922.[32] The postwar slump in commodity prices punctured the wartime prosperity enjoyed by rural America, and, under pressure to "do something for the farmer," the Republicans turned to their favorite nostrum, higher tariffs. The colony had benefited fortuitously when the Democrats removed the quotas on Philippine exports in writing the Underwood-Simmons tariff in 1913. Nine years later the colony received a comparable windfall when the Fordney-McCumber tariff established protective duties on vegetable oils, desiccated coconut, and canned pineapple. Within a few years, American enterprise and capital were prominent in coconut-oil production and dominated new industries producing desiccated coconut and canned pineapple. Philippine exports of coconut oil and desiccated coconut quickly captured the American market for these products and exports of canned pineapple to the United States grew steadily. The Fordney-McCumber tariff proved a mixed blessing for Manila Americans, however, as rapid growth in shipments of Philippine coconut oil alarmed American dairy and vegetable oil interests who petitioned Congress for quotas on insular shipments of coconut oil. Frustrated in their efforts to escape Philippine competition, these interests were driven into the American independence movement as it gathered strength in the 1920s.

The interest of Manila Americans in territorial status remained intense during the visit to the Philippines in 1921 of General Leonard Wood, the presidential candidate of the

progressive wing of the Republican Party in 1920, and former Governor General Forbes, who comprised Harding's "special investigating mission." Wood and Forbes carefully sounded opinion across the American community and solicited exhibits and testimony which afforded Americans ample opportunity to deprecate the capacity of Filipinos for self-government and to make known their support for territorial status. As the mission's stay in the islands drew to a close, the American Chamber of Commerce met to endorse a resolution that the colony be converted to the "Territory of Malaya" and given a territorial government.[33]

Manila Americans were also encouraged to anticipate a new phase of colonial government when Washington announced that Wood would be the new governor general. Wood and Forbes provided few hints as to the government recommendation they would make, however, which added to the anxiety with which the American community awaited the mission's report. With Wood due to return to Manila to take up his new duties in October 1921, the chamber members decided to step up pressure for territorial status. To do so they greeted Wood with a cable, widely circulated to trade associations and chambers of commerce in the States, advising against further American investment in the Philippines until the colony's status was fixed as a territory. Wood was furious with the action of the chamber and when the report of the Wood-Forbes Mission appeared, recommending that the colony continue to be governed under the Jones Law, the American business community cooled toward the new governor general.[34]

In December 1921 the Four-Power Pacific Treaty, committing the United States, Great Britain, Japan, and France to maintain the military and naval status quo in the Western Pacific, was signed in Washington. The treaty prompted widespread speculation that Congress, assured by the treaty that independence granted the Philippines would

be respected by the signatory powers, would take up the "Philippine question." A few months later, the Nacionalista Party leaders Sergio Osmeña and Manuel Quezon led a "parliamentary mission" to the States, which renewed speculation in the colony that something was afoot on the "Philippine question." With the action ten thousand miles away in Washington, the ACC met to endorse a third resolution petitioning Congress for territorial status.[35]

The American elections in 1922 increased substantially the congressional contingents of Democrats and "progressive" Republicans who favored independence, and the concern of Manila Americans for Congress's intentions toward the colony refused to subside. By the summer of 1923, Governor General Wood was moving to recover executive powers that had been vested in his office by the Jones Law but shared with Filipino leaders by his predecessor. Quezon, who had wrested the Nacionalista Party leadership from Osmeña, decided to oppose Wood's actions. This confrontation exploded spectacularly in the "cabinet crisis" of 1923. Alarmed that Congress might choose to escape responsibility for the turbulent colony by enacting independence, the ACC met to approve a fourth petition for territorial status.[36]

Although the composition of the incoming 64th Congress threatened action on the "Philippine question," the American business community remained complacent during the initial weeks of the session. In early March the chamber met to approve a fifth resolution favoring a territorial form of government "similar to that of Hawaii." The directors of the chamber also authorized wide distribution in the States of a pamphlet reminding Americans that their country was ruling the Philippines by "right of conquest and by purchase" and asserting that "a form of territorial government has been established." Meanwhile, both House and Senate Philippine committees held hearings on early independence measures which revealed strong sentiment in

Congress for freeing the colony. At the conclusion of the hearings, Secretary of War John W. Weeks cabled Wood in Manila that substantial majorities of both houses favored independence.[37]

Confronted by this alarming development, the American Chamber of Commerce abandoned its territorial-status crusade for an alternative strategy. In doing so the chamber members decided that, although the Constitution empowered Congress to make all "needful rules" for administering "territory" acquired by the United States, this authority did not include the power to alienate American sovereignty. The chamber contended that an amendment to the Constitution was required to vest such authority in Congress. Having satisfied themselves that Congress did not have the power to free the colony, the chamber members petitioned Congress to create the "Federated Philippine Islands States" of Luzon, Visayas, and Mindanao. The chamber also delegated three of its leading members to go to Washington to oppose any independence measures.[38] Meanwhile, Republican regulars on the House committee were able to deflect the drive for early independence by coalescing behind the Fairfield bill, drafted by the Bureau of Insular Affairs, which would move the colony to a new stage of autonomous Filipino government under residual American sovereignty. However, the Fairfield bill did not come to a vote as Congress rushed to adjourn for the nominating conventions of 1924.

The chamber's campaign to deflect congressional sentiment for independence by questioning the power of Congress to alienate American sovereignty was no more effective than its territorial-status crusade. A year and a half later the chamber invited Congress to surrender its jurisdiction over the fate of the colonial enterprise by submitting the "Philippine question" to the American people in a referendum.[39] Diverse proposals calling upon Congress to relinquish or share its constitutional power to dispose

of the colony were raised from time to time during the period of American rule, but they all foundered on congressional indifference.

The next threat faced by American business in the colony was the campaign of American sugar, dairy, and vegetable oil interests for quotas limiting insular shipments of sugar and coconut oil to the United States. This issue surfaced in 1928 when Congressman Charles Timberlake (Colo.) submitted a resolution limiting imports of Philippine sugar to 500,000 tons. The ACC responded by joining with the insular government and the Nacionalista Party in a common front behind the position that so long as the colony remained under the American flag it would be "immoral" to restrict insular exports to the United States.[40]

The concern of the American business community over the threat of quotas limiting insular exports to the United States was short-lived. President Hoover convened the new Congress in 1929 to revise the tariff. In debate on the sugar schedule, Senator Edwin Broussard (La.) proposed an amendment limiting shipments of insular sugar to the United States to 600,000 tons. Debate on Broussard's amendment revealed strong sentiment for freeing the colony and Senator William King (Utah), who introduced independence measures in every Congress following his election to the Senate in 1922, proposed an amendment converting Broussard's amendment to an early-independence measure. The Senate rejected the King amendment by a relatively narrow vote which confirmed the strength of independence sentiment in Congress. This incident projected the "Philippine question" to center stage where it remained until independence legislation materialized three years later.[41]

The American Chamber of Commerce never deviated in its opposition to independence and to curtailment of the colony's trade preference. As independence approached, the

American business community found itself powerless to influence events as Congress drafted independence legislation and scheduled the gradual elimination of mutual free trade, which Congress considered a denial of meaningful Philippine independence.

The American elections of 1930 sharply increased the Democratic contingents in both Houses and the Philippine committees scheduled hearings on independence measures when the new Congress convened in December 1931. The American Chamber of Commerce confined its lobbying efforts to resolutions opposing both the Hare and Hawes-Cutting bills on the ground that the trade provisions of these measures were "framed to destroy the economic structure of the Philippine Islands."[42] With this feeble contribution, the American business community in the Philippines joined the insular government and the War Department in Washington in relying upon Hoover's veto to turn back the threat of independence. Hoover did veto the Hare-Hawes-Cutting law, but his veto was quickly overridden by substantial margins in both Houses.

However, independence did not come via the Hare-Hawes-Cutting law. Quezon was disgruntled by the economic terms of independence and apprehensive that their success in obtaining independence legislation might enable Osmeña and/or Manuel Roxas, who served as the independence mission to Washington, to challenge successfully his monopoly of political power. In the end, he decided to try to precipitate a bargaining confrontation with the incoming Roosevelt administration in which he would seek terms of independence more to his liking. To do so, he led a successful campaign to obtain rejection of the independence law by the insular legislature.

Quezon's decision to oppose acceptance of the independence law was welcome to Manila Americans generally, and from the sidelines of the bitter intra-Nacionalista

Party struggle they cheered on the "Anti" faction, led by Quezon, which soundly trounced the "Pro" faction of Osmeña and Roxas. We can be confident that members of the chamber were delighted to find themselves on the winning side for a change. Their glee promptly gave way to chagrin, however, as Quezon's efforts to reopen the economic provisions of the independence law foundered on the indifference of the Roosevelt administration and he was forced to accept Congress's terms of independence, with minor cosmetic changes, in the Tydings-McDuffie Act of 1934.

Within a few weeks of the unanimous decision of the insular legislature to accept the Tydings-McDuffie law, Quezon collaborated with Governor General Frank Murphy and his economic staff in launching a "reciprocity" campaign to reopen the economic terms of independence. Heartened by this development, the ACC joined with its Filipino counterparts, the Chamber of Commerce of the Philippines, the Confederation of Associations of Sugar Planters, the Manila Chamber of Commerce, the Philippine Sugar Association, and other organizations of export producers, to form the Philippine-American Trade Association to support the crusade to preserve the colony's trade preference.[43]

The insular government and the Philippine Legislature drafted legislation to reserve a larger share of the insular market to American manufactures and thereby maintain a more balanced or "reciprocal" trade between the Philippines and the United States. Meanwhile, Quezon junketed to Washington to drum up congressional support for "reciprocity." The Roosevelt administration was more interested in independence than in continuing the colony's dependence on the American market, however, and the "reciprocity" campaign quickly expired.[44]

Quezon was not one to take "no" for an answer, however, and he continued to resist the loss of preferential trade. In the end, he had no choice but to agree to the appointment

by President Roosevelt of the Joint Preparatory Committee on Philippine Affairs (JPC) to plan the postindependence transition to nonpreferential trade. To allow the affected economic interests their day in court, the JPC held hearings in the United States and in the Philippines during the summer of 1937. In anticipation of the hearings in Manila, the Philippine-American Trade Association was revived and adopted a statement of "Fundamentals" which declared that "the imposition of import duties by the United States and the Philippine Islands . . . will be disastrous to the producers and manufacturers of both countries" and concluded that "free-trade relations between the two countries should be continued indefinitely."[45]

American and Philippine interests were out in force for the hearings both in the United States and in Manila. Virtually all briefs submitted by economic interests in the colony--American and Filipino alike--were prefaced by the statement of "Fundamentals." The president and the counsel of the American Chamber of Commerce testified at length on the need for preferential trade, and the president of the Pacific Commercial Company, the largest American commercial firm in the islands and long active in the chamber, represented the Philippine-American Trade Association before the committee.[46]

When the JPC returned to Washington to plan the transition to duty-free trade, this task proved controversial, but ultimately agreement was reached to recommend a twenty-year transition, beginning in 1941 and extending through 1960, over which trade preferences would be dismantled. A bill to carry out the trade transition reached Congress in 1939, but it encountered rough sledding as Europe was girding for war, Japan was extending her control over China, and Congress was uninterested in extending any aspect of the colonial relationship beyond the proclamation of independence in 1946. Congress made minor

amendments in the economic provisions of the independence law covering the remaining period of the autonomous Philippine Commonwealth, which would give way to the independent Philippine Republic, and postponed decision on the postindependence phase of the transition to nonpreferential trade.

War interrupted the Commonwealth phase of the trade transition at the end of its first year. The war also saw the internment of Manila Americans, extensive economic dislocation as Japan's prospects dwindled, and widespread destruction during the liberation. The island economy was prostrate at the war's end and Americans in the Philippines were fully occupied by the tasks they faced in resuming a more normal peacetime life. The American Chamber of Commerce was reactivated within a month of the return of the American army to Manila, and the *American Chamber of Commerce Journal* resumed publication in December 1945.

With independence imminent, Congress turned to the task of tying off the loose ends of four decades of colonial rule and four years of war. Two major but interrelated tasks faced Congress: American participation in rehabilitation of war damage in the colony and scheduling the dismantling of preferential trade. Extensive hearings were held by the Ways and Means Committee, but they were dominated by officials of the executive branch, representatives of the Commonwealth government, and members of Congress. There was negligible input into the hearings from Americans with business interests in the Philippines.

The activities ten thousand miles away in Washington did not go unnoticed by the reactivated ACC in Manila. When former U.S. High Commissioner Paul McNutt attempted to revive his proposal for a "realistic re-examination" of independence in March 1945, the directors of the chamber approved a statement affirming that the ACC would not be concerned with "political questions." A year later, with

independence scheduled to be proclaimed on July 4, the July issue of the *American Chamber of Commerce Journal* included an editorial critical of the "invidious" parity provision of the recently enacted Bell Trade Act requiring Filipinos to amend their constitution to extend national treatment to Americans and their enterprises in the exploitation of natural resources and the operation of public utilities. The editorial did not meet the approval of all chamber members, however, and the February 1947 issue of the *Journal* included an insert signed by the president of the ACC stating that the editorial "merely represented the individual view of the author." It concluded, "The position of the American Chamber of Commerce is that the parity question is one for the decision of the Filipino people" and committed the chamber to "take no part in the controversy." Within a few months, the *Journal* had a new editor.[47]

The Philippine Rehabilitation Act of 1946 assured Filipinos and their new republic substantial amounts of American assistance as they faced the task of repairing the ravages of war. In writing the companion Bell Trade Act, Congress proposed to revive the prostrate Philippine economy by continuing mutual free trade for eight years, followed by twenty years over which mutual trade-preferences would be gradually dismantled. This transition was completed in mid-1974.

IV

The track record of the American business community, as it was organized to focus and amplify the voice of that community behind efforts to influence colonial policy, strongly suggests that as lobbyists these American businessmen were "born losers." They spoke with one voice as they advocated immigration of coolie labor, the extension of coastwise shipping policy to the colony, a panoply of incentives to induce development by American enterprise and

capital, indefinite retention of the colony, territorial status, and continuation of preferential trade, and as they opposed quantitative restrictions on Philippine exports to the United States. Thanks to Taft, they were on the winning side when mutual free trade was initiated in 1909, but there is scant evidence that their support was a significant factor in establishing this policy. In the 1920s and 1930s, they found themselves allied with virtually every segment of population in the colony--Filipino and American--in efforts to prolong preferential trade as the independence movement in the States gathered strength. My reading of the history of that period supports the conclusion that in writing independence legislation in 1932, and in drafting the Bell Trade Act in 1946, Congress insisted that preferential trade be dismantled with "all deliberate speed."

The business community of Manila Americans had plenty of company. The American community as a whole spoke with one voice and what it had to say was predictable. There was no significant body of Americans in the Philippines that did not support indefinite retention in some form or other and preferential trade. An occasional American deviant would speak up for independence, but to do so courted peer pressure approaching ostracism.

The ineffectiveness of Manila Americans as they sought to mold colonial policy to their liking is not hard to understand. Their proprietary interest in the colony was felt intensely, but they did not comprise a microcosm of the larger American community; they marched to a different drummer. For an overwhelming proportion of Americans the "Philippine question" had ceased to be a significant issue in domestic politics by the time the business community of Manila Americans formed the American Chamber of Commerce in 1920. Americans generally were agreed that their government should bestow independence on the colony and that independence should have an economic as well as a political

dimension. Americans generally did not question the power of Congress to determine the specific nature of these dimensions of independence; they took for granted that this was an aspect of United States sovereignty over the island colony. Moreover, the Democratic Party, which opposed the imperial venture from the start and proclaimed America's purpose to grant independence to the colony in the Jones Law, was gathering strength and was determined to shed the Philippine incubus when the party's congressional contingent reached sufficient size to do so. Under these circumstances the campaign of Manila Americans--who comprised less than one ten-thousandth of the American population--to deflect the will of the wider American society was doomed to futility.

Notes

1. Henry F. Pringle, *The Life and Times of William Howard Taft*, 2 vols. (New York: Farrar & Rinehart, 1939), 1:160-62.

2. U.S. Congress, House, *Messages of the President . . . December 3, 1900*, H. Doc. 1, 56th Cong., 2d sess., 1900, 34-40.

3. U.S. Congress, Senate, *Report of the Philippine Commission to the Secretary of War, November 30, 1900*, S. Doc. 112, 56th Cong., 2d sess., 1900, 32.

4. For a brief survey of the organization of business interests in the islands in the early years of American rule, see W. Cameron Forbes, *The Philippine Islands*, 2 vols. (Boston: Houghton-Mifflin Co., 1928), 2:183-86.

5. U.S. Constitution, art. IV, sec. 3; U.S. Congress, S. bill 2355, 11 Jan. 1900, 56th Cong., 2d sess., 1900.

6. *Report of the Philippine Commission . . . November 30, 1900*, 7, 34.

7. Taft to Root, 2 Jan. 1900, ibid., 5-6.

8. U.S. Public Law (PL) 803, 2 Mar. 1901, 31 Stat. 910.

9. Root to Taft, 5 Mar. 1901, U.S. National Archives, Bureau of Insular Affairs, Record Group 350, 141-44½ (hereafter cited as BIA, plus file number).

10. U.S. Philippine Commission, 1900-1916, *Report of the Philippine Commission to the Secretary of War . . . 1901*, 4 vols. (Washington, D.C.: Government Printing Office, 1901), 1:148-50 (hereafter cited as *RPC 1901*).

11. U.S. PL 28, 8 Mar. 1902, 32 Stat. 54; U.S. PL 235, 1 July 1902, 32 Stat. 691.

12. Speech given at Montpelier, Vermont, 26 Aug. 1904, BIA, 3862-75. See also U.S. Congress, House, *Duties on Philippine Products, Hearings before the House Committee on Ways and Means on H.R. 17752*, 58th Cong., 3d sess., 1905, 84; and U.S. Congress, House, *The Duty of Americans in the Philippines*, H. Doc. 191, 58th Cong., 2d sess., 1904, 8.

13. U.S. PL 5, 5 Aug. 1909, 36 Stat. 11, par. 5. For background on the "gentleman's agreement," see Clarence R. Edwards to Governor General James F. Smith, 10 Apr. 1909, and memorandum, Frank McIntyre for Edwards, 14 July 1909, BIA, C1250-83, 125; Carman N. Smith to Taft, 24 Nov. 1908, BIA, C1242-62.

14. Philippine Islands (P.I.), Bureau of the Census, *Census of the Philippine Islands . . . 1903*, 4 vols. (Manila: Bureau of Printing, 1905), 4:565-74; P.I., Bureau of Customs, *Annual Report of the Collector of Customs, 1940* (Manila: Bureau of Printing, 1941), table 2, p. 84.

15. American Chamber of Commerce (ACC), Manila, to McKinley, 19 Dec. 1901; P. Krafft, report for Brewster

Cameron, undated; Barry Baldwin to the Secretary of War, 28 Feb. 1902; Wright to Taft, 1 Mar. 1902; all in BIA, C1246-8, 43, 15, 16.

16. U.S. Congress, Senate Committee on the Philippines, *Affairs in the Philippine Islands*, S. Doc. 331, 3 vols., 57th Cong., 1st sess., 1902, 1:846-48.

17. "Statement Showing Estimate of American Capital Investment in the Philippine Islands," 5 Aug. 1911, BIA, 23908-1.

18. Forbes Journal, vol. 1, 2 Nov. 1904, W. Cameron Forbes Papers, Houghton Library, Harvard University.

19. *Duties on Philippine Products, Hearings . . . on H.R. 17752*, 84; U.S. Congress, House, *Philippine Tariff, Hearings before the Committee on Ways and Means on H.R. 3*, 59th Cong., 1st sess., 1906; U.S. Congress, House, *Tariff Hearings, Hearings before the Committee on Ways and Means*, H. Doc. 1505, 60th Cong., 2d sess., 1909; P.I., *Hearings before the Secretary of War and the Congressional Party, Aug. 29-30, 1905* (Manila: Bureau of Printing, 1905).

20. The activities of the Manila Merchants Association, beginning in 1908, are chronicled in BIA, 17607-0, 1, 10, 14, 28, 29.

21. U.S. PL 16, 3 Oct. 1913, 38 Stat. 114, sec. 4, par. C.

22. Republican National Committee, *Republican Campaign Textbook, 1912* (Philadelphia: Dunlap Printing Co., 1912), 284-85.

23. U.S. Congress, House, H. bill 22143, 62d Cong., 2d sess., 1911; Forbes, *Philippine Islands*, 2:208.

24. U.S. Congress, House, H. bill 18459, 63d Cong., 2d sess., 1914.

25. U.S. Congress, Senate, *Government of the Philippine Islands, Hearings before the Senate Committee on the Philippines on H.R. 18459*, 63d Cong., 3d sess., 1915.

26. U.S. Congress, Senate, S. bill 381, 64th Cong., 1st sess., 1916; *Congressional Record*, 64th Cong., 1st sess., 1916, 1250.

27. Kinkaid to McIntyre, 23 Dec. 1915, BIA, 4325-186; "Resolutions Adopted by the Manila Merchants Association, 25 Dec. 1916," BIA, 4325-228A.

28. U.S. War Department, Bureau of Insular Affairs, *Annual Report of the Governor General of the Philippine Islands, 1920* (Washington, D.C.: Government Printing Office, 1920), 69; George F. Luthringer, *The Gold Exchange Standard of the Philippines* (Princeton: Princeton University Press, 1934), app. E, p. 274.

29. *Congressional Record*, 7 Dec. 1920, 66th Cong., 3d sess., 1920, 33; *New York Times*, 8 Dec. 1920, p. 1.

30. *Editorials and Letters From the Open Forum Appearing in the Manila Times During August and September 1920, Relative to a Territorial Form of Government* (Manila: n.p., 1920); George H. Fairchild to Harding, 11 Apr. 1921, BIA, 364-99.

31. U.S. Congress, House, *House Joint Resolution 68*, 21 Apr. 1921, 67th Cong., 1st sess., 1921; *Manila Times*, 25 Apr. 1921, and *Philippines Herald*, 24 Apr. 1921, BIA, 364-423A, 423B.

32. U.S. PL 318, 21 Sept. 1922, 42 Stat. 858, sec. 301.

33. *New York Times*, 13 Sept. 1921, p. 16.

34. *New York Times*, 15 Oct. 1921, p. 16, and 24 Oct. 1921, p. 26; U.S. Congress, House, *Conditions in the Philippine Islands, Report of the Special Mission to the Philippine Islands to the Secretary of War, 8 Oct. 1921*, H. Doc. 235, 67th Cong., 2d sess., 1922.

35. *New York Times*, 27 May 1922, p. 12.

36. *New York Times*, 16 Nov. 1923, p. 19.

37. Norbert Lyons, *The Philippine Problem Presented from a New Angle* (Manila: n.p., 1924), 6-8; *New York Times*, 15 Mar. 1924, p. 7; Heath (President, ACC) to the Secretary of War, 21 Feb. 1924, in U.S. Congress, Senate, *Philippine Independence, Hearings before the Committee on Territories and Insular Possessions on S. 912*, 68th Cong., 1st sess., 1924, 61; McIntyre to Wood, 1 Mar. 1924, BIA, 4325-after 287; McIntyre to Wood, 1 Mar. 1924, BIA, 364-after 499.

38. *New York Times*, 11 Apr. 1924, p. 15; Wood to the Secretary of War, 7 May 1924, BIA, 4325-310.

39. *New York Times*, 29 Nov. 1925, p. 29.

40. U.S. Congress, House, *House Joint Resolution 214*, 23 Feb. 1928, 70th Cong., 1st sess., 1928; ACC to the Secretary of War, 7 Mar. 1929, BIA, C1246-164.

41. U.S. PL 361, 17 June 1930, 46 Stat. 590, sec. 301. For debates on the Broussard and King amendments, see *Congressional Record*, 9 Oct. 1929, 71st Cong., 1st sess., 1929, 4062-71, 4369-99.

42. *New York Times*, 2 Apr. 1932, p. 23; 21 June 1933, p. 37; and 24 Jan. 1934, p. 12.

43. Philippine-American Trade Association, *Program of the Reciprocity Movement* (reprinted from *Sugar News*, 16 Sept. 1935), copy in Frank Murphy Papers, box 54, file 54-10, Michigan Historical Collections, Ann Arbor; *New York Times*, 18 July 1934, p. 10; C. K. Moser, U.S. Department of Commerce, memorandum, "Recent Developments Relating to the Philippine Islands," 31 Aug. 1934, BIA, C1246-181.

44. Murphy to Cox, 9 Aug. 1934, Frank Murphy Papers, box 51, file 51-45; *Congressional Record*, 74th Cong., 1st sess., 1934, 7541; *New York Times*, 27 Oct. 1934, p. 9.

45. U.S. Department of State, *Report of the Joint Preparatory Committee on Philippine Affairs, May 20, 1938*, 4 vols. (Washington, D.C.: Government Printing Office, 1938). For statement of "Fundamentals," see ibid., vol. 3, group 1, p. 2.

46. Ibid., 2:572-603.

47. Lewis E. Gleeck, Jr., *The Manila Americans (1901-1964)* (Manila: Carmelo & Bauermann, 1977), 274-75; *American Chamber of Commerce Journal*, July 1946 and February 1947. The offending editorial is reprinted in Shirley Jenkins, *American Economic Policy Toward the Philippines* (Stanford: Stanford University Press, 1954), 80.

AMERICA'S "PERMISSIVE" COLONIALISM: JAPANESE BUSINESS IN THE PHILIPPINES, 1899-1941

Grant K. Goodman

> No matter what may happen in the world, the traditional friendship between Japan and the Philippines should not be disturbed.
>
> Kimura Atsushi
> Former Consul General of Japan in the Philippines
> September 10, 1941

For over a decade my research interest, as a historian of Japan, has focused on the relationship between Japan and South and Southeast Asia during the period from approximately the Russo-Japanese War through the Pacific War. In that context I have given particular attention to Japanese-Philippine relations and to Japanese-Indian relations. While comparisons are not always useful, certain generalizations nevertheless have emerged in the course of these studies.

Both in colonial India and in the colonial Philippines the concern of the Japanese government and of the Japanese business community, working then as now in close concert, was almost exclusively economic. While the Philippines had a significant immigrant Japanese population, about thirty thousand in December 1941, India had almost none. In Japan prior to World War II, knowledge of both colonies was minimal and serious interest in these two "fellow" Asian

entities was almost nonexistent. In fact, what information there was consisted overwhelmingly of Japanese translations of British and American books. Complementarily, knowledge of Japan in India and the Philippines in the prewar era derived almost entirely from British and American sources and opinions. For both India and the Philippines, an examination of the archives of the Ministry of Foreign Affairs in Tokyo reveals that Japanese diplomats in the two colonies were astute, informed, and tough observers who reported trenchantly and in great detail, thus providing an impressively reliable picture of conditions in their assigned bailiwicks.

During the colonial period in both Delhi and Manila there were varying degrees of unease about Japanese intentions toward India and the Philippines. The British raj, at times seeming almost desperate to reinforce its hold on the subcontinent, evidenced a fair degree of paranoia about the presumed multiple dangers posed by Japan to India. Such fears persisted despite the almost total lack of evidence of any serious Japanese threat to Indian security. In the Philippine case, for the most part, the Americans seemed to make a concerted effort to minimize any danger to the islands from Japan, even though the possibility of aggressive action by Japanese forces seemed to be on the increase as American colonial rule neared an end. In fact, the American colonial authorities in the Philippines were as convinced as the Filipino political leaders that viable independence for the colony was greatly dependent upon the good will of the Japanese empire.

Moreover, since the concept of "permissive" colonialism, as used in this paper, is based on the contention that from the outset of its colonial rule in the Philippines the United States was a reluctant colonial mentor, interference in economic activities such as those of the Japanese, which would seemingly ultimately advance the

economic well-being of the Philippines, was minimized. Indeed, as an "uncolonial" colonial power, the United States never had a trained colonial civil service committed to "defending" American interests in the Philippines. Moreover, psychologically burdened with guilt about colonial control of the Philippines and repeatedly articulating the rhetoric of the goal of training the Filipinos for self-government, the Americans became increasingly dependent upon and manipulated by a very skillful indigenous elite. While members of this dominant social-economic-political Filipino clique utilized nationalist slogans to gain public favor for themselves and foster public fervor for independence, behind the scenes they developed close and useful ties with their reticent colonial masters who, then as now, much preferred American-style constitutional politics to the complexities of economics. As David Sturtevant has written, the Americans, by virtue of their emphasis on "political fundamentalism," "strengthened the social legacy of Spain: elitists derived augmented powers; peasants inherited mounting squalor."[1]

Further, in economic terms American interests in the Philippines were never of great importance. No significant number of Americans ever settled in the islands. While some few American corporations developed sizable investments in the Philippines, for example, Dole Pineapple and Benguet Consolidated Mining, the overall stake of American capital there remained relatively small. In fact, as both the Japanese and the Filipinos well understood, it was largely pressure from domestic American economic interests in a severe depression era--sugar beet growers, rope manufacturers, and the like--that influenced Congress to pass the Tydings-McDuffie Act of 1934. This legislation promised the Philippines full independence in 1946, after a ten-year transition period of Commonwealth status during which a United States High Commissioner, representing the

American president, would continue to control foreign affairs and defense.

Here again the Japanese were acute observers of both the American and Philippine scenes since they, unlike many other foreign observers, firmly believed after passage of the independence law (and, in fact, much earlier) that the United States would indeed pull out of the islands. As the information provided below will suggest, while the Americans continued to exercise sovereignty over the Philippines, the Japanese moved vigorously and purposefully to fill what they saw to be a potential economic void, one which they felt certain the Filipinos themselves could not fill. Finally, it also should be emphasized that, during the 1930s in particular, United States officials in the Philippines, reflecting policies determined in Washington, were extremely reluctant to encourage actions which would unnecessarily antagonize the Japanese government and further exacerbate the already difficult relations between America and Japan.

Japanese trade with, and investment in, the Philippines began in the nineteenth century under the Spaniards. In 1888 the first Japanese consul was appointed to the Philippines. He brought with him over 140 different articles to exhibit in order to encourage and develop trade: silk, crepe, cotton handkerchiefs, porcelain, glass, toilet soaps, and so on.[2] In 1898 the first Japanese-owned retail store in Manila opened and offered, in addition to a complete line of dry goods, such typically Japanese items as lacquerware and Satsuma chinaware. In 1901 the firm, Mitsui Bussan Kaisha, opened a branch on the second floor of the "Nippon Bazar," the name given to the aforementioned retail outlet. By 1914 there were 20 Japanese-owned firms and commercial establishments operating in the Philippines. By 1920 there were 40 and by 1934 there were 200, of which 139 were locally organized and 61 were branches of Japan-based concerns.[3]

Statistically, the increasing importance of Japan in Philippine trade can be easily demonstrated by the following figures: in 1899 Japan was the fifth-largest trading partner of the Philippines with a total trade value of 2.5 million pesos; in 1909 Japan had dropped to tenth-largest, but the value of Japan-Philippines trade had risen to 3.5 million pesos; in 1919 Japan was number three, with a total value of 42.1 million pesos; and in 1929 Japan was, as Japan was to remain until the Pacific War, number two, although, because of the world depression, the actual value of the trade had declined slightly to 38.1 million pesos.[4] In 1937 an all-time high was reached in prewar Philippine-Japanese trade, when the total value amounted to more than 52 million pesos, 10 percent of the Commonwealth's foreign trade.[5]

Prior to 1905, Japan-Philippines trade had been fairly evenly balanced between imports and exports, but from 1906 to 1911 the trade pattern favored Japan. Between 1912 and 1918, exports and imports between the two countries were again mutually in balance, but after 1918 the Philippines was faced with a continuous and growing trade imbalance due to an excess of imports from Japan. This situation was characterized by a progressive expansion on the part of Japan of the number and variety of items, as well as of the quantity of individual items offered for export. Quite the opposite was true in the Philippine case where, although the actual number of exportable items increased very slightly, the nature of the "new" goods was economically insignificant and the actual amounts involved were minimal. By 1938 the Sino-Japanese War and Japan's extensive economic controls began to affect Japan-Philippines trade. Japan's exports to the Philippines fell off considerably, but Japan's purchases of Philippine raw materials increased (especially metals, hemp, and lumber) so that in 1939 and 1940 the trade balance was reversed.

The principal exports of the Philippines to Japan were abaca fiber, lumber, leaf tobacco, kapok, copra, coconut oil, and gums and resins. From Japan the Philippines imported textiles, coal and coke, glassware, matches, paper and paper articles, iron and steel, and fish and fish products. While Japanese investments in the Philippines were relatively small before 1932, key areas of the Philippine economy were attracting Japanese capital. For, despite a certain amount of either ineffective or unenforced restrictive legislation, Japanese real-estate holdings included valuable residential and business properties in the major urban centers, timber lands, mineral lands, and agricultural lands. Japanese shipping was also moving into a position of dominance in the Philippine carrying trade. Other enterprises in which Japanese investors played a significant role were gravel and crushed rock companies, the printing and binding industry, and the manufacture of bricks and tiles, boxes and bags, ice cream, shoes, confectionaries, and beer.[6]

The Japanese had also moved successfully with energy and capital into the Philippine fishing industry. Certainly, given the fish-consuming dietary habits of the Filipinos and the natural wealth in fish of the waters surrounding the islands, one might have expected highly developed techniques of fish catching and therefore a cheap and plentiful supply of fish. Unfortunately, such was not the case. Lacking technical skill, capital, and initiative, Filipino fishermen had advanced little since pre-Spanish days. Deep-sea fishing was practically unknown, and inshore fishing was limited, too, by inadequate and inefficient methods. The tropical Philippine climate, marked by continuous high temperatures and humidity, also discouraged improvements because of the rapid decay of fish after the catch. Some commentators have also criticized both the Spanish and American colonial administrations for failing to

encourage the improvement of Philippine fishing techniques and skills.

By 1930 Japanese domination of the Philippine fishing industry was a fact. Four hundred Japanese fishermen were operating sixty-four power fishing boats in Manila Bay and thirty-six more deep-sea power vessels in the Gulf of Davao, an investment of half a million pesos. The Japanese had brought to the Philippines such innovations as swift, powered, fishing vessels, the beam trawl, and the trap net, as well as scientific survey-ships which pinpointed from year to year the richest fishing grounds. Moreover, many of the Japanese engaged in fishing in the Philippines were graduates of Japanese fishery schools. If one adds to these advantages the same industriousness and emphasis on organization which the Japanese brought to their other activities, the Japanese success story is easily understood.

Not until 1930, when an estimated 80 percent of the fish products brought to the Manila market were supplied by the Japanese,[7] did the Philippine government attempt to curb Japanese fishing activities. In that year the insular legislature passed restrictive legislation which was vetoed by Governor General Dwight Davis (after receiving a strong letter of protest from the Japanese consul general) on grounds that the bill was carelessly drawn. However, in December 1932 the so-called Fisheries Act was approved by Governor General Theodore Roosevelt, Jr., coincidentally the most anti-Japanese of the American chief executives in the Philippines. This law provided for a control procedure by which all commercial fishing vessels of more than three tons in operation at the time of the promulgation of the law would be licensed, but subsequently aliens could only engage in fishing by participation in corporations in which "at least sixty-one percent of the capital stock belongs wholly to citizens of the Philippine Islands or of the United States."[8]

That this law never proved effective and that Japanese domination of fishing continued up to the outbreak of war is not surprising. At the time of the passage of the Fisheries Act, a significant segment of informed opinion felt that such discriminatory legislation would only retard Philippine economic development and would remove an important stimulus to Filipino fishermen. Further, it was believed by many that the Philippine government might well lose a potentially important source of tax revenue and that Filipino laborers might be deprived of a fairly lucrative area of employment. This law also created new problems, such as poaching by unauthorized Japanese fishermen, and, most importantly, the so-called dummy system by which fishing boats were simply registered in the name of a Filipino who was paid a certain number of pesos each month for the use of his name while Japanese continued to operate the boats. Since, unfortunately, there were often close ties between Filipino politicians and dummy owners, investigations and exposes of this situation never seemed to achieve results. In fact, some observers went so far as to suggest that the most significant impetus to the passage of the Fisheries Act was the hope of some Philippine politicos and lawyers to profit from it as dummies rather than the publicly stated fear that Japanese economic encroachment was a possible forerunner to political penetration. The average annual dummy's fee of 150 pesos was simply assumed by the Japanese to be an unavoidable expense of doing business, the cost of "protection" for a generally very profitable enterprise.

Japanese interest in the potential of Philippine mineral resources dated from at least 1911 when geologists from the firm, Mitsui Bussan, spent some months in the islands studying iron ore deposits and attempting to negotiate certain business arrangements which at that time failed to reach fruition. In 1917 the Kuhara Mining Company of Tokyo began to exploit the Calambayanga site in Camarines Norte, Luzon, but terminated operations the following year

because the yield was low and expenses were excessive. Other Japanese interests purchased considerable quantities of bituminous limestone mined near Balete on the island of Leyte.[9] The subsequent development of extraction for export of such minerals as iron ore, chromium, manganese, copper, and gold was due in large measure to the growing demands of the Japanese market and to the stimulus of Japanese capital. By 1940, base metals made up some 40 percent of the value of Philippine trade with Japan.[10]

Efforts by Japanese business interests to open up the great stands of commercial timber in the Philippines also met with notable success. However, the real extent of prewar Japanese involvement in lumbering is extremely difficult to determine, again because of the extensive and successful use of dummies. Perhaps the leader in this field was the Philippine Lumber Exportation Company, a subsidiary of the Nakamura Steamship Company of Kobe, whose president, Nakamura Seishichiro, a leading businessman and financier, was a close personal friend of the leading prewar Filipino political figure, Manuel L. Quezon. The Philippine Lumber Exportation Company also acted as sole agent in Japan, Korea, and Manchuria for three other major Philippine timber enterprises. In addition, the Philippine Lumber Exportation Company had its own logging station at Casiguran, Tayabas (later Quezon) Province, the home territory of Quezon. In 1941 Japanese investment in Philippine timber ranked at least third, behind that of Philippine and American capital, but it may well have ranked higher because of the concealed Japanese interest in both Filipino and American firms.

It is especially informative to peruse the extensive correspondence between Quezon and both Nakamura and Ando Kinuzo, managing director and general manager of the Philippine Lumber Exportation Company.[11] The tenor of the writing is so intimate and so personal that one is struck by the closeness of these friendships. Moreover, to witness

the kind of ties that existed between leaders of the Japanese business community in the islands and the highest echelon of Philippine politics is to gain an insight into one of the principal bases of the strong bonds between Japan and the Philippines that developed during the 1930s despite the gradual deterioration of Japanese-American relations.

Perhaps the single overriding aim of the leaders of the Japanese community in the Philippines was to try to bring about among the Philippine leadership a recognition of what the Japanese insistently described as the "complementarity" of the two economies. To this end the Japanese assiduously cultivated the trust and friendship of a variety of key Filipinos. Not only was this commercial diplomacy at its best (and a style at which the Japanese excel), but it created an ease of rapport between Japanese and Filipinos which resulted concretely in the improvement of Japan's economic position in the Philippines in an era of political antagonism between Japan and the United States. In this regard it should be noted also that the Japanese, far better than most Americans, understood the intensely personal nature of Philippine society and consciously operated on a very personalized basis, working to develop deep personal attachments in a way that is alien to American society and in a style for which Americans have no patience.

Despite these intense efforts, Japan's share of Philippine trade remained proportionately quite limited. However, it was believed by many Japanese and Filipinos that the preferential tariff relationship between the United States and the Philippines was responsible for keeping these figures so low.[12] Therefore, with the promise of independence in 1946 and an anticipated diminution of free trade between the former colonial master and its independent-to-be offspring, the prospects for Japan seemed bright indeed. Meanwhile, in a series of somewhat ambivalent moves, Filipino politicians were on the one hand

trying to pass legislation which would be restrictive toward Japanese trade (and thus prove to the American Congress that independence would not mean the end of the profitable Philippine market for American traders) and on the other hand trying to encourage the expansion by Japan of her trade with the Philippines in anticipation of independence. In the fall of 1932 the Philippine Japanese Merchants Association entered a formal protest against certain tariff bills pending before the Philippine Legislature. The Japanese consul general also expressed the view that the proposed bills were discriminatory and were in violation of the most-favored-nation clause of the United States-Japan commercial treaty of 1911. In particular, he objected to Philippine Senate bill no. 173 which proposed that customs be levied on the basis of par currencies. While this act was presumably directed at all countries with depreciated currencies, Consul General Kimura Atsushi stated that it would impose upon Japanese goods a duty more than double the present rate by arbitrarily fixing the value of yen currency.[13]

In his reply, rejecting the protest and "deeply regretting" their different points of view, Governor General Roosevelt wrote to Kimura:

> I have given your protest against Senate Bill No. 173 most careful consideration and feel that you have misinterpreted its purport. The Bill in its essence is not discriminatory against any nation, for all are treated alike therein. Indeed, it is the reverse of discriminatory, for it provides a method for the standardization of values which prevents inequalities arising between nations because of some temporary fluctuation in exchange in their currencies.[14]

What neither Kimura nor Roosevelt perhaps realized was that this legislation was really put forward in the Philippine Legislature to support the efforts of the Osrox Mission which was in Washington pressuring for Philippine independence. In short, the Filipino legislators were saying to their American counterparts that the American market would be protected even if independence was granted.

Yet, as independence approached, spokesmen for Japan were becoming more direct in their statements and were increasingly addressing themselves to their Filipino audiences and tending to ignore the continued American presence. For example, Watanabe Kaoru, commercial agent in the Philippines for the Japanese Ministry of Commerce and Industry, urged the Filipinos to get ready for independence by taking a series of concrete steps which he listed as: the development of diversified foreign markets for Philippine products, the development of home industries for greater domestic stability, the development of local agricultural production so as to eliminate the importation of foreign foodstuffs, the development of uncultivated lands, the planting and cultivating of cotton, the building of a canvas shoe factory, the opening of a moderate-size iron foundry, and the improvement of fruit-bearing plants.[15] In retrospect, one must say that this was excellent advice while also admitting that in every one of these suggested actions there was an obvious role for either Japanese capital or Japanese technical skill. Again, Consul General Kimura, in an address to the Pan Pacific Association of Manila, called for the production in the Philippines of more of the raw materials needed in Japan, for closer attention to reducing the cost of production of such items in the Philippines so that their products might be more competitive, for the establishment of a Philippine trade mission in Japan, and for the adjustment of the monetary system of the Philippines to the standards of other countries, an obvious reference to the depreciated Japanese

yen. Kimura further urged the Philippines to raise cotton and try to gain a share of Japan's 360 million yen worth of annual cotton imports.[16]

In an address at the University of the Philippines, Kimura counseled Filipinos not to erect tariff barriers against Japanese goods. He also advised them to depreciate the peso to bring it in line with the yen, give up the dream of future trade relations with the United States, and seriously consider the development of free trade between Japan and the Philippines to replace the American free market, which, he said, would be terminated with independence. Finally, he sounded a muted warning to Philippine officialdom when he said, "In dealing with a matter which may affect future relations with foreign countries, especially with the Oriental countries, you must take the utmost care to prevent any possible misunderstanding."[17] Kimura was most likely directing his remarks to the members of the legislature who just one month earlier had received a message from Governor General Frank Murphy urging them to respond to the generous trade provisions of the Tydings-McDuffie Act by considering raising tariffs against Japanese textiles in order to protect American manufacturers.

That message had undoubtedly been the result of tremendous pressure brought to bear on Murphy by American textile exporters, and it is questionable whether Murphy ever seriously intended to have such a measure passed. Quezon, too, was inundated by similar communications from American textile interests. All of this was the result of a sharp rise in Philippine cotton-textile imports from Japan in 1933 and 1934.[18] For example, a report issued on January 15, 1934, showed that the sale of Japanese goods in the Philippines during 1933 had increased some 50 percent, while United States sales decreased 12 percent, and that the principal Japanese gain had been made in the sale of cotton

textiles, in which Japan's share of the market had jumped to over 50 percent.[19] Nevertheless, overall trade figures released in March 1934 showed that 83.2 percent of Philippine trade was still being conducted with the United States as compared to Japan's 4.6 percent share.[20] In fact, the increase in Japan's share of the Philippine textile market during 1933 and 1934 had nothing to do with tariffs. In these years Philippine tariffs, which had never been prohibitively high, were little different from those of preceding years. Rather, Japan's gain in the textile market could be attributed to four other factors: (1) superior merchandising (in a price, not a quality, market), plus long-term credit, centralized distribution, and the latest manufacturing techniques; (2) rising prices of American textiles as a result of National Recovery Administration (NRA) regulations; (3) shipping strikes in the United States that gave the Japanese a chance to penetrate deeply the market in the Philippines; and (4) the end of a boycott of Japanese goods by Chinese merchants in the Philippines.

Pressures ebbed and flowed about members of the Philippine Legislature. Some legislators felt that the decision on the textile tariff question represented, in effect, a choice for the future between Japan and the United States. A "well-organized Japanese-financed" lobby known as the Consumers League was particularly active in urging legislators to be sensitive to the need to keep Philippine living costs as low as possible by maintaining the flow into the islands of inexpensive Japanese goods.[21] Many legislators, however, were seriously concerned lest the failure to pass anti-Japanese economic legislation be considered ingratitude by the American Congress which might then retaliate against the Philippines.

Immediately, the decision of the legislature was to take no decision. Instead, at the request and at the expense of the Philippine Legislature, a special American

congressional committee was invited to visit the islands to make recommendations about future relationships between the Philippines and the United States.[22] This action was undoubtedly not only attributable to the textile problem, but even more to two sudden blows at the Philippine economy struck by the American Congress almost directly on the heels of the Tydings-McDuffie Act.

The Jones-Costigan Sugar Act of 1934 had provided specific quotas for domestic American sugar producers but had left the quotas for other areas to be fixed by the secretary of agriculture. In June, Secretary Henry A. Wallace set the Philippine quota for 1934, retroactive to January 1, at just over 1 million short tons, actually less than the amount of Philippine sugar already exported to the United States that year. Another half-million tons would in fact be sent to the United States in 1934, but would be subtracted from the quota for 1935, which had been set below 1 million tons, leaving a net quota (for 1935) of under 0.5 million tons, less than one-third of the previous year's production.[23]

Moreover, domestic American producers of fats and oils lobbied into the Revenue Act of 1934 a provision (section 602½) which levied a processing tax of three cents per pound on coconut oil, a burden equivalent to 200 percent of the then-prevailing market price of coconut oil. The word "processing" was obviously a euphemism since the tax was nothing more than a toll levied against Philippine producers for the benefit of American oil interests. Even the provision that proceeds collected from the tax were to be returned to the insular treasury did little or nothing to soften the impact of this restrictive legislation since an amendment also stated that such payments were to cease at once if "at any time the Philippine government provides by law for any subsidy to be paid to the producers of copra, coconut oil or allied products."[24]

Clearly, a major beneficiary of these harsh measures was Japan. It was the Japanese who had been urging the Philippines to recognize that independence would bring an end to its protected niche in the American market, that a reorientation of its economic life would necessarily take place, and that Japan was the logical successor to America in the Philippine trade pattern. As one *New York Times* correspondent so aptly put it, "The United States is showing the Philippines out, and Japan is leading them in."[25]

A concurrent report to the State Department from Ambassador Joseph C. Grew in Tokyo concerned what seemed to be characteristic Japanese efforts in this direction.[26] Grew recounted in detail the contents of an article which appeared in a special supplement of the *Osaka Mainichi* newspaper. The writer was one Asari Kenji, an official of a textile company, whose views, according to Grew, might be considered typical of his industry. Asari's thesis was that the Philippine sugar industry would collapse after independence because of American tariffs and that Filipinos should immediately begin to plant abandoned sugar lands in cotton; thus, prosperity for "the two oriental races" would result from an exchange of Philippine raw cotton for Japanese manufactured goods. As of 1935, when these ideas were being bruited about by the Japanese, the production of raw cotton in the Philippines was practically nonexistent. However, the Japanese were suggesting that the new restrictions being imposed on Philippine products by the United States would inevitably transform the nature of the Philippine economy, and that Japanese capital, technical know-how, and managerial supervision could allow the transformation to be carried out relatively painlessly by raising crops such as cotton for which Japan was currently dependent on more remote, perhaps more expensive, and probably less reliable sources. In exchange, Japan was certainly capable of supplying the Philippines with all the

manufactured goods then being purchased at high prices from the United States.[27]

In the fall of 1935, word reached the Philippines from Washington that the difficult and delicate textile issue was being handled at the diplomatic level and that the Philippine Legislature, much to its relief, need not take any action. On October 19, 1935, the Department of State announced a "Gentlemen's Agreement" with Japan covering the textile situation in the Philippines. The agreement provided that, in return for no increase in the Philippine tariff on cotton piece-goods, the Japanese would voluntarily limit imports of Japanese cotton piece-goods for two years, beginning August 1, 1935, to 45 million square meters annually.[28] The 45 million figure was a compromise between the 24 million square-meter total of 1933 and the 56 million total of 1934. On the surface the compromise seemed to hold benefits for both parties since (1) the Japanese could now be assured that for the first two years of the Commonwealth transition period, which was to begin November 15, 1935, the Philippine Legislature would not pass any restrictive tariff legislation, and (2) the Americans were now equally assured of retaining a significant share of the Philippine cotton-textile market. In fact, thanks to duty-free protection and consumer preference, over the next two years American cotton piece-goods might be worth twice as much as those from Japan, even if the volume of Japanese goods was greater.

Subsequently, however, confidential data from the office of the United States high commissioner demonstrated that the Japanese exceeded their quota by over 12 percent for the total two-year period of the agreement, and that the excess was principally the result of transshipments, that is, material of Japanese origin not shipped directly from Japan to the Philippines. In addition, a fairly large share of the textile trade had been diverted to rayon, which was not covered by the "Gentlemen's Agreement." Before 1935,

maximum total imports of rayon into the Philippines had never reached 8 million square meters. In 1935 alone, however, imported rayon piece-goods totaled 14 million square meters,[29] while from January to May 1936 the total reached 13,437,240 square meters.[30] For the full year, 1936, the amount of imported rayon climbed to 25 million square meters, 97 percent of which was of Japanese manufacture.[31] Thus, in the view of the United States high commissioner to the Philippines, the position of American textile interests had not really improved, and he recommended a much more rigorous, comprehensive, and enforceable arrangement with the Japanese.

However, the high commissioner's views were significantly counteracted by a report prepared by two economic analysts of the United States Tariff Commission. The conclusion of this very detailed study, which appeared in February 1937, was that Japanese trade with the Philippines was not nearly as great as had been represented and there was on the part of Americans a "general misconception" regarding the supposed extent of Japanese gains in the recent past. The report placed the blame for this misunderstanding on a customs yardstick which had valued the yen at fifty cents when, with depreciation, it had actually fallen to twenty-eight cents. For example, it was argued, insular imports from Japan in 1933 had been officially reported at the equivalent of $9.5 million, or 13 percent of total Philippine imports for the year, but subsequent revaluation of the yen reduced the amount to $5.68 million, or only 8 percent of total imports.[32]

Actually, according to the views of these Tariff Commission experts, such Japanese increases as there were had come about at the expense of other nations. For, while Japan had displaced the United States as the principal supplier to the Philippines of cotton textiles, the total trade volume of both the United States and Japan had risen

while that of all other countries had declined. The net effect of this report in Washington was to vitiate the concerns of High Commissioner Paul McNutt and bring about an extension of the "Gentlemen's Agreement" for an additional year beyond the two-year period for which it had been originally negotiated.

In 1938 and 1939 the "Gentlemen's Agreement" was again extended, each time for one year, and the quota of 45 million square meters of cotton piece-goods from Japan was retained. The real success of the "Gentlemen's Agreement," however, could probably not be measured accurately since Japanese exports were increasingly affected by the demands on Japanese factories of the war effort in China and because Chinese shopkeepers in the Philippines had renewed their resistance to handling Japanese products. For example, Japan's share of the total Philippine import trade fell to less than 10 percent in 1938, with the value of cotton piece-goods only 19 percent of the total imported into the Philippines, 8 million square meters less than the limit set by the agreement.[33] Similarly, although in 1938 Japan still supplied the Philippines with 86.2 percent of its rayon imports, there was a sharp drop toward the end of the year and during the first three months of 1939, and a concurrent rise in the sales of American rayon, which by March 1939 exceeded the combined total of imports from both Japan and Hong Kong (the point from which transshipments were often made).[34]

It is important, of course, to understand that at no time had the textile agreements with the United States in any way affected the continuing long-range efforts of the Japanese to bring about closer economic ties with the Philippines. Trade delegations and parliamentary missions arrived in the Philippines from Japan with increasing frequency. Friendly associations between Filipino businessmen and politicians and their Japanese counterparts

were persistently encouraged. Filipinos were urged to visit Japan and when they did they were given the warmest possible receptions. All of these activities had an impact in the Philippines and there was everywhere an increasing awareness of Japan. Obviously Japan's insightful analysis of the motivations of the American Congress in passing the Tydings-McDuffie Act played a crucial role in its increasing determination to advance economic ties with the Philippines.

That all of these efforts were beginning to have salutary results seemed apparent in statistics released in May 1940. These figures showed that, although exports from Japan to the Philippines had decreased, Japanese imports from the Philippines rose from a figure of 36 million yen in 1938 to 49 million yen in 1939.[35] This drastic revision in the traditional unfavorable balance of trade for the Philippines seemed to some to be proof of the wisdom of those Japanese who had insisted that the Filipinos could find a dependable market for their natural products in Japan.

In reality, however, the war situation had seriously transformed the nature of the market, making it possible for the Philippines to secure some momentary advantages which had not been available before. Japan's domestic needs were greater than ever as she pressed her war machine into high gear and pushed her productivity levels to record highs. Japan's traditional sources of raw materials, such as Malaya and the Netherlands East Indies, were being affected by the participation of the respective mother countries in the European war, and a far greater share of their crop production was being absorbed accordingly. Shipping bottoms and shipping facilities were at a premium. Prices that were traditionally lower in other Southeast Asian countries than in the Philippines began to equalize, and in a war situation, with the need to stockpile, price was no longer a significant consideration. Another factor which contributed

to the increase of Philippine sales to Japan was Japan's function as an entrepôt for transshipments of raw products to her Axis partner, Germany, many of whose needs were met via the Trans-Siberian Railway right up to the German invasion of Russia. For all of these reasons, products such as sugar, copra, and coconut oil, which the Philippines had always wanted to sell to Japan and which the Japanese had always said they would buy if they could, were at long last finding their way into the Japanese market.

In December of 1940 the newly appointed Japanese consul general, Niiro Katsumi, arrived in Manila to take up his post. Of special significance to Japan's economic interest in the Philippines, perhaps, was the fact that Niiro received his appointment directly after having served as chief of the first section of the Bureau of Commerce in the Foreign Ministry where he was recognized as an expert on trade and industry. On his arrival in Manila, Niiro told the Philippine press while "smiling and back-patting" that he had only one determination: "to work for the promotion of cultural, trade and friendly relations between the Philippines and Japan."[36] This commitment of Niiro was further evidenced some six months later when he requested from the Foreign Ministry subsidies of at least ten thousand yen each for the Japanese Chamber of Commerce of Manila and for the Committee on Emergency Countermeasures, a body made up of local Japanese specially organized to combat numerous anti-Japanese measures which began seriously to affect the welfare of the Japanese community in the Philippines during 1941. Niiro further urged that in case the ministry should decide only to provide a subsidy for the Japanese Chamber of Commerce, the amount should be twenty thousand yen.[37]

As war clouds lowered over the Pacific in 1941, economic pressures on Japanese-Philippine trade increased substantially, principally, of course, as a result of worsening United States-Japanese relations. Export

regulations covering all exports from the Philippines were put into effect May 29, 1941, and an order freezing all Japanese assets there was decreed on July 26, 1941. Yet these new restrictions were only the latest and most severe of a series of ostensible curbs that had been placed on Japanese economic activities in the islands prior to 1941, and none of the previously enacted obstacles had either seriously impeded the growth of Japanese economic interests in the Philippines or had discouraged the Japanese from their long-range economic goals. One is necessarily impressed by the business ingenuity, skill, and perseverance of the Japanese community there. Moreover, of particular significance to the sustained momentum of Japan's economic effort in the Philippines was the success of the traders and merchants on one hand and of the consular staff on the other in working, not only in the closest concert with each other, but in evolving mutually rewarding relationships with their Filipino opposites both in business and government.

Clearly America's permissive colonialism, as it is interpreted by this writer, also facilitated Japan's economic advancement in the prewar Philippines. From the onset of American colonial rule, American domestic economic interests took precedence over the limited American investment in, and trade with, the Philippines. Moreover, the relative weakness of the power of the United States in the Pacific, both economic and military, resulted in a desire to achieve accommodation with Japan whenever possible.[38] In addition, "the reluctant colonial mentor" syndrome, which before and after the Tydings-McDuffie Act burdened the American psyche in general and most American officials in the Philippines specifically, engendered guilt feelings which the Japanese fully recognized and from which they were well prepared to profit.

Notes

1. David R. Sturtevant, *Popular Uprisings in the Philippines: 1840-1940* (Ithaca: Cornell University Press, 1976), 59.

2. K. Watanabe, "History of Japanese Trade in the Philippines," in *The Philippine-Japanese Yearbook and Business Directory* (Manila: M. Farolan, 1938), 1:323.

3. Ibid.

4. *Facts and Figures About Philippine Island Trade with Japan* (Manila: Department of Commerce and Agriculture, 1935).

5. Catherine Porter, *Crisis in the Philippines* (New York: Alfred Knopf, 1942), 84.

6. S. V. Epistola, "The Japanese Adventure in the Philippines," in *Progress* (Manila: Manila Times Publishing, 1960), 104.

7. U.S. National Archives, Bureau of Insular Affairs, Record Group 350, 6144-160A (hereafter cited as BIA, plus file number).

8. Act no. 4003, chap. II, sec. 20.

9. Atherton Report on Wood-Forbes Mission, 15 Nov. 1921, BIA, 22639A-56A.

10. Helmut G. Callis, *Foreign Capital in Southeast Asia* (New York: Institute of Pacific Relations, 1942), 20.

11. These letters are found in the personal papers of Manuel L. Quezon, National Library, Manila, Philippines; microfilm copies of the Quezon Papers are

available in the Michigan Historical Collections, Ann Arbor.

12. "The extent to which the Philippine economy became dependent upon free trade with the United States is suggested by the fact that during the decade ending in 1937 the Islands shipped to the United States between 75 and 87 percent of its total annual exports and obtained from the United States between 59 and 65 percent of its total annual imports." J[oseph] Ralston Hayden, *The Philippines: A Study in National Development* (New York: Macmillan, 1942), 789.

13. BIA, 6144-174B, 7 Nov. 1932.

14. Ibid., 8 Nov. 1932.

15. *Manila Tribune*, 1 Apr. 1933.

16. Ibid., 26 Jan. 1934.

17. Quoted in Maj. William H. Anderson, *The Philippine Problem* (New York: G. P. Putnam's Sons, 1939), 272.

18. Imports of cotton cloth from the United States declined from 68 million square meters in 1933 to 43 million square meters in 1934, while imports from Japan rose from 24 million square meters in 1933 to 56 million square meters in 1934 (Ethel B. Dietrich, "Closing Doors Against Japan," *Far Eastern Survey* 7, no. 16 [10 Aug. 1938]:181-87). For a detailed chronicle of United States-Philippine economic relations in the period after the passage of the Tydings-McDuffie Act, see Sidney Fine, *Frank Murphy: The New Deal Years* (Chicago: University of Chicago Press, 1979), 132-54.

19. *New York Herald Tribune*, 18 Feb. 1934.

20. *New York Times*, 11 Aug. 1935.

21. Thomas Ireland, *War Clouds in the Skies of the Far East* (East Rutherford, N.J.: Putnam, 1935), 345.

22. Members of the committee were Democratic Senators Carl Hayden of Arizona, William G. McAdoo of California, Kenneth McKellar of Tennessee, and Millard Tydings of Maryland, and Republican Senator Ernest W. Gibson of Vermont. Senators McKellar and Gibson, who had voted for the Tydings-McDuffie Act, indicated on their return to the United States that they had had a change of heart. Said Senator Gibson, who became a vigorous retentionist, "Japan is moving in as we are moving out" (*New York Times*, 10 May 1935).

23. Grayson Kirk, *Philippine Independence: Motives, Problems and Prospects* (New York: Farrar, 1936), 128-32.

24. Ibid., 133.

25. *New York Times*, 11 Aug. 1935.

26. Despatch no. 1371, 27 June 1935, from United States Embassy, Tokyo (BIA, 6144-203B).

27. During the World War II Japanese occupation of the Philippines, the Japanese attempted to raise cotton on lands that traditionally had been used for the planting of sugar, claiming that sugar production had depended on an artificially created foreign market. Unfortunately, the experiment was a miserable failure because of popular indifference on the part of the Filipinos, a poor choice of lands on which to cultivate cotton, weather obstacles, and the ravages of pests and insects.

28. The agreement was retroactive only to August 1935, so that the actual total of Japanese cotton-textiles imported into the Philippines during 1935 reached an all-time high of 72 million square meters (Dietrich, "Closing Doors").

29. *Report on Conditions and Affairs in the Philippine Islands During the Quarter Ending June 20, 1937*, 61.

30. G. C. Monden, "Is Japan Playing Ball With Us?" *The Commonwealth Fortnightly*, September 1937, 29.

31. *Report on Conditions*, 61.

32. *United States-Philippine Trade With Special Reference to the Independence Act and Other Recent Legislation*, U.S. Tariff Commission, Report no. 118, 2d ser. (Washington, D.C.: Government Printing Office, 1937), 30.

33. F. T. Merrill, "The Outlook for Philippine Independence," *Foreign Policy Reports* 15 (15 Sept. 1939):159-61.

34. *Philippines Herald*, Aug. 1939.

35. Ibid., 15 May 1940.

36. *Philippines Free Press*, 26 Dec. 1940, p. 25.

37. Japan, Ministry of Foreign Affairs, E.2.6.0.1-23, 18 June 1941. Subsidies from the Foreign Office in Tokyo to the Japanese Chamber of Commerce of Manila had begun with one thousand yen for the year 1937.

38. "Quezon and [High Commissioner] Murphy . . . were determined not to provoke Japan. . . . The policy of nonconfrontation that they adopted continued without change until the Japanese attacked the Philippines" (Fine, *Frank Murphy*, 111).

THE PHILIPPINES AS AN EXAMPLE OF THE FORD MOTOR COMPANY'S MULTINATIONAL STRATEGY

Harold C. Livesay

My purpose in this paper is to discuss the Ford Motor Company's operations in the Philippines from the perspective of the company itself. This should not be interpreted as an advance apology for a defense of the company, for it lies beyond my competence to decide what policy toward industrial products--and their manufacture or importation--would best serve the interests of the Philippine people. Ultimately, on the resolution of that question hinges the determination of whether the company's presence contributes to the country's general welfare.

The Ford case merits consideration because it not only provides an example of a multinational at work, but also because it highlights questions that confront any lesser-developed country like the Philippines, with its overwhelmingly agricultural economy, feeble industrial sector, surplus population, and the crippling limitation of inadequate indigenous supplies of technology, capital, and managerial skills that effectively preclude the creation of a viable manufacturing capacity using its own resources alone. The Philippines and countries like it face these questions regardless of whether their political system functions as a corrupt dictatorship, a social democracy, or as some variation in between. No serious political economist of whom I am aware, regardless of political persuasion, suggests that any nation can achieve a decent

standard of living without reliable supplies of some manufactured goods, obtained at an affordable price. How to obtain the goods is a dilemma; Ford's operations in Southeast Asia provide one resolution. I do not suggest that it is the best, but it provides a real, rather than theoretical, basis for consideration.

The significance of Ford's Philippine activities goes far beyond the simple interaction of a big, powerful company with a small, weak nation, for the company's product, the motor vehicle, is a hieroglyphic representing a complex web, any strand of which a competent Filipinist could follow back to the roots of Philippine history. The decision to rely on the motor vehicle as a fundamental component of the country's transportation system, regardless of when taken and by whom, grew out of and impacted upon imperialism and independence; law enforcement and guerrilla warfare; commercial and subsistence agriculture; nationalism, regionalism, and tribalism; urbanization and rural depopulation; educational opportunities, goals, and methods; social stratification and mobility; and economic self-sufficiency or dependency.

It is this last strand, the impact of the automobile on the national economic policy relating to both domestic and foreign trade, that I want to grasp here, for the automobile inevitably has an elaborate underlying logic of its own that dictates a confrontation with a series of hard choices, each with benefits and consequences that ripple through society. The automobile is not something one can simply have and enjoy, like a painting, or a brook gurgling through the backyard; it necessitates an involved infrastructure of highways on which to run it, gasoline to fuel it, mechanics and parts to repair it, and docks at which to load and unload it, each representing capital and skills invariably in short supply in a society like that of the Philippines.

The decision to introduce the automobile into widespread use (as opposed to keeping it a toy for the rich) presumably resulted from the conclusion that the benefits of a flexible (as compared to rail, the most likely alternative), low-cost (in terms of the original outlay of domestic capital) form of transportation outweighed the costs. The costs, however, invariably prove greater than original estimates and some of them defy easy quantification. Not only does operation of the motor vehicle require the infrastructure discussed above, but it soon becomes, as Americans know better than any, an addiction leading to massive dependency and the need for ever-increasing supplies. The net effect of these inherent traits of the motor vehicle is to force upon countries like the Philippines an apparent choice between tying up scarce domestic capital and skills in automotive and associated industries, or surrendering some measure of sovereignty by buying abroad. In fact, creating a home industry usually involves prohibitive costs, so the choice ultimately boils down to importation on the one hand or inducement of a foreign company to set up assembly or manufacturing plants on the other. Most developing countries strongly prefer the latter, for importation smacks of knuckling under to imperialism and drains scarce foreign exchange. Assembly or manufacturing, especially the latter, may bring investment, employment, and technical training to the home economy.

Persuading foreign companies to assemble is difficult; inducing them to manufacture is more difficult still, because the effective demand of the local market rarely justifies the massive investment necessary for even rudimentary manufacturing facilities for so technically complex a product as the automobile. Indonesia, for all its hundred-million-plus people, offers a less promising arena for investment in automobile manufacturing than Norway, with a population a fortieth as large. As Professor Mira Wilkins has impeccably documented, poorer nations throughout the

twentieth century have had to weigh the benefits of barring imports and forcing foreign companies to assemble or manufacture against the risk that foreign suppliers might respond to such legislation by withdrawing altogether, with consequences that can be seen, for example, in contemporary Cuba.[1] A national commitment to the motor vehicle, then, whether resulting from such well-intentioned strategies as facilitating economic growth through improved transportation and communication, or multiplying the country's educational resources, or from more sinister motives such as strengthening the central government's capacity to suppress rebellion, breaking down regionalism, or enforcing cultural homogeneity, has the accompanying effect of decreasing the country's economic self-sufficiency. The choice, then, lies not between independence or dependency, but between types of dependency and their associated costs, among which a purely economic cost may be the least punitive.

In the elaborate *pas de deux* danced by automobile companies and potential host countries, the manufacturers enjoy manifold advantages, superior experience and continuity of governance not least among them. In the small family of producers willing and able to operate in the Philippines, no member has a longer history of successful international operations than the Ford Motor Company. Ford made its first sale outside the United States in 1904. By 1908, a contemporary journal observed, a Ford owner could drive his vehicle around the world and have it serviced every night in a Ford-authorized garage. Ford's overseas operations followed, indeed established, the pattern described by Professor Wilkins, first exporting finished vehicles to foreign dealers, then parts to foreign assembly plants, and, finally, moving gradually to local manufacture of components when required by law and justified by market volume. The Model T, the vehicle that carried the Ford Motor Company from its insignificant beginnings in the Piquette Avenue factory in Detroit in 1903 to a global

empire by the 1920s, proved ideally suited to motoring conditions in underdeveloped corners of the world and remained so long after it had become obsolete in the United States. With its high clearance (invaluable on the deeply rutted tracks that passed for roads in much of the world), its planetary transmission that allowed shifting from forward to reverse without reducing power (ideal for rocking out of mudholes), its simple design that allowed for easy assembly and repair (the entire vehicle could be disassembled to its constituent parts in two or three hours using only the screwdriver, pliers, and adjustable wrench that came in the car's tool kit), and its easy convertibility from passenger to freight vehicle, the "Tin Lizzie" swiftly became, as Henry Ford anticipated, the first "worldwide car."

By 1914, the Philippines, too, had become part of Ford's domain, as imported Model T's met the needs of the American army of occupation and the American "colony" of ten to twenty thousand people. In 1928, Ford opened a sales and service branch in Shanghai to supply China, French Indochina, and the Philippines. After World War II, the company opened a small assembly plant in Manila (1946). The plant was sold in 1949 to Mantrade, a local dealership, which continued assembling Ford cars until 1967 when the company reacquired the property. Since 1969, the company has expanded its capacity, accepting without complaint (as far as the records reveal) the 1973 law that revoked foreign ownership of land in the Philippines. The necessity to build on leasehold rather than freehold land has proven no deterrent to further investment.

From the outset, Ford's local assembler, acting under orders from Detroit, purchased as many components as possible from local suppliers. Given the state of the art in the Philippine industrial sector, these purchases were of necessity limited to rudimentary products such as seat

padding and finished wood items; the more sophisticated elements came from the United States, Canada, Great Britain, Australia, and New Zealand. Such purchasing policies smack of economic imperialism, suggesting that the company's purpose was to restrict local producers to high-bulk, low-profit items while retaining for itself the exclusive franchise for expensive components, thus maximizing profit, perpetuating dependence, and precluding the development of local competitors. Applied to Henry Ford, however, such an analysis is facile and mistaken. Ford had, in the understatement of the *New York Herald-Tribune*, "his share of odd notions," some of them bizarre and a few, such as his anti-Semitism, downright vicious. He was, nevertheless, an extraordinarily sophisticated economist, despite a lack of, and indeed a contempt for, formal training in the subject. Long before Keynes, Ford understood the relationship between factory wages and effective demand. Only he, Billy Durant, and Ransom E. Olds, among hundreds of fledgling entrepreneurs, foresaw the automobile as a mass, rather than a luxury, consumer good, and single-handedly demonstrated the validity of his perception that the car market had an explosive elasticity of demand. In foreign trade Ford remained a dedicated, die-hard free-trader throughout his life, arguing even before World War I that the United States "should step forward boldly and lead the world toward freer trade" because "people cannot keep buying from us unless we buy from them, and unless international trade can go on, our business will stagnate here at home."

Ford also thought that policies aimed at keeping backward nations in a state of dependency were folly at its most short-sighted. In the 1920s he repeatedly declared, "We ought to wish for each nation as large a degree of self-support as possible." Far from keeping "them dependent upon us for what we manufacture, we should wish them to learn to manufacture themselves and build up a solidly founded civilization."[2] By the 1920s, Ford had translated this

philosophy into investment in manufacturing and assembly facilities on six continents. These investments were profit-motivated, to be sure, but reflected a different philosophy and proffered greater local benefits than, for example, the strategy followed by Japanese firms to this day of manufacturing at home to sell abroad.

Henry Ford II, who inherited his grandfather's mantle in 1946, shared many of the elder Ford's views on international business. Believing global industrialization necessary and inevitable, Ford II thought American companies had to involve themselves in the process or face exclusion from world markets. In 1962, speaking of underdeveloped countries, he said, "We must go in with our tools and know-how and help them get the things that they want."[3] Like his grandfather before him, Henry Ford II translated his views into company policy, ordering his subordinates to create plans that would permit the company to continue to operate profitably wherever markets could be found. Different national environments called for different solutions; plans tailored to Europe and Latin America had no relevance for Southeast Asia where in the 1960s the company sought a strategy that would secure two objectives: first, to satisfy the demands of emerging countries that the company manufacture locally despite the fact that no single market outside Australia justified the necessary investment; second, to create a going concern on the periphery of that elusive chimera that had dazzled American businessmen since colonial times, the gigantic Chinese market, there to await the happy day when the gates might swing open and the Great Wall be breached.

On February 2, 1971, Ford's Asia-Pacific staff presented its boss with a scheme designed to achieve these objectives. Known as the "Complementation Plan," it called for the establishment of manufacturing plants in countries throughout the region, each concentrating on one or two

components tailored to the existing level of industrial proficiency in each country. Taiwan, for example, would furnish gasoline and diesel engines, while the Philippines would manufacture body panels. At the outset, the region would remain dependent on Ford of Europe for such technically demanding parts as axles and transmissions, but this dependency would decline as the technical capacities of the region rose, an evolution that Ford's presence would aid and encourage. Finished components would be cross-hauled to assembly plants scattered throughout the region, from Bombay to Fiji, a complicated supply process to be sure, but one that Ford had perfected in other areas of the world.[4]

All this involved a projected capital expenditure of $150 million in the region by 1980 (typically an underestimate; the budgeted Philippine share, $11 million, turned out to be $40 million), much of it for new manufacturing and assembly facilities, "necessary if Ford is to participate . . . in these countries where government policy is directed toward increasing self-sufficiency."[5] With this network of facilities the company could bypass the problem of the small "size of individual vehicle industries of these countries [which] imposes substantial cost penalties on local manufacture"[6] because "the current size of the total . . . South East Asian markets provides for a much more economic scale of manufacture."[7] In addition, the company hoped to expand the market significantly by introducing a new, low-cost, utility vehicle, more like its ancestral Model T than any of its current products.[8] Spreading the factories around, moreover, would accommodate "the practicalities of the economic and political environment in the area," which required "that benefits of a major industrial undertaking of this nature be spread equitably amongst the participating countries."[9]

The "Complementation Plan," the Ford staff argued, promised the best of both worlds, "being in line with

requirements and capacities of the developing countries and, of equal importance, . . . [offering] the best opportunity of improving our competitive position in the markets of each country."[10] "Most of the Governments of these countries," the report concluded cheerfully, "will . . . happily commit to [such] a general arrangement."[11]

Among the happiest governments to "commit" was that of the Philippines. In 1972, the Philippines named the Ford Motor Company as one of five manufacturers (General Motors, Toyota, Volkswagen, and Chrysler were the others) authorized to participate in the "Progressive Car Manufacturing" program. Possibly some chemistry between the Marcos family and the Fords played a role in the decision, but the suggestion that bribery was the crucial factor beggars all but the most paranoid imaginations. Ford and the Philippines had long experience with one another; Ford already had a considerable investment in its Manila assembly plant and had long held a major share of the Philippine market. The "Complementation Plan" promised to expand investment, employment, and export credits for the Philippine economy. These reasons more than sufficed for both sides.

In the 1970s, Ford steadily expanded its investment in the Philippines, adding to the capacity of its Manila assembly plant, building a parts depot nearby, and carrying out the "Complementation Plan" by building a body-panel stamping plant at Mariveles in the Bataan Export Processing Zone, where production began in 1975. Ford employs two thousand people in the Philippines, all but half a dozen of them Philippine nationals. It has the capacity to assemble twenty thousand vehicles a year, all of them equipped with four-cylinder engines with less than 2,000 cc. displacement. The Mariveles plant can turn out one hundred thousand sets of body stampings per year.

In purely statistical terms, the Philippines has fared better from the bargain than has the company. Fierce Japanese competition has devastated Western manufacturers in Southeast Asian markets less protected than the Philippines, often pushing Ford's regional sales volume below the point where the "Complementation Plan" makes economic sense. Consequently, the Mariveles plant has become a truly global supplier, with some of its products appearing from time to time in vehicles assembled in the United States and Europe.

The impact of Ford's operations on Philippine society is harder to measure. The company has created a large number of jobs, most of them providing (so far) reasonably steady employment at pay scales that are dirt cheap by Western standards, but greatly outstrip the coolie wages paid in textile, electronics, and agricultural industries. Ford trains its employees, though for the majority this means bringing them to a semiskilled level at best, often in operations inapplicable to any other industry. The tedium of automobile assembly or manufacturing work needs no elaboration here, although a walk through a sugar-cane field or a day spent picking pineapples might put such industrial work in a different perspective.

Within the ranks of its employees, however, Ford does train a significant minority in skills valuable both to the worker and to the society at large. Computer programmers, accountants, machine repair personnel, and others can and do market skills learned at Ford elsewhere in the Philippine economy, often going to work for, or setting themselves up as, Ford suppliers, a field that expanded rapidly as Ford production grew and local content rose to over 90 percent by the end of the 1970s.[12] In fact, the company worries a great deal more about retaining its skilled Filipino employees than it does about saving the good jobs for the white folks from abroad. Ford has two strong incentives for eliminating foreign-service personnel from its Philippine

operations: first, the tax laws in the United States and Australia, which, together with the higher salaries necessary to induce foreign-service personnel to go to the Philippines and stay there long enough to be effective, make such people ten times as expensive as local talent;[13] second, relations with the host government and society. Around the world, for the simple reason that it finds such a policy good business, Ford tries to minimize its "American" character and convince host societies that it is, for all practical purposes, a local company. Few arguments serve this end as well as a visible management of local origin. Consequently in the 1970s Ford reduced the number of non-Filipino employees in the country from thirty to three.

On the whole, Ford's presence has contributed significantly to the indigenous skill level, both mechanical and managerial, of the Philippines. How far and wide these benefits have diffused in Philippine society is a question that could also be asked about the benefits of the Ford payroll. Unfortunately, I cannot answer it in either case. The export credits generated by Ford's operations could potentially have great benefit to the country, depending upon how the government chooses to use them, something beyond Ford's control. One suspects the Marcos government has made something less than socially optimal use of them.

Since 1969, Ford's "Complementation Plan" has validated one of the arguments originally advanced by its proponents. With its "established network of affiliates," Ford's planners claimed, the company could "operate as a cohesive whole," drawing components and supplying vehicles throughout the region, something that no single country could do because "the majority of Governments [were] not administratively sophisticated enough to implement such a scheme and also because the capacity of the private sector [was] so limited." Therefore, there was "in fact no body public or private capable of undertaking the task or co-

ordinating its implementation."[14] By its success in the mid-1970s, Ford presented the Philippines with the possibility of deriving the benefits of a growing industrial sector. Just what these benefits turned out to be and who shared them was a matter determined more by the local government than by the Ford Motor Company.

Unquestionably, the company operates in the Philippines for the selfish reason of making a profit, not only in the Philippines, but throughout the region as well. Without this motivation, there would be no Philippine automobile industry. Whether the country would be better off that way seems arguable, but at least, as far as Ford is concerned, the theoretical proposition may get an empirical test. In the last five or six years, Japanese manufacturers have reduced the company's regional operations to marginal or negative profitability. For Ford, deep in trouble elsewhere in the world, the relatively small markets of Southeast Asia may not justify the investment of enough scarce, expensive capital to retain competitiveness. The company may abandon Southeast Asia entirely, or relinquish it to its Japanese affiliate, Toyo Kogyo.

Ford came to the Philippines originally during the heyday of American imperialism and stayed through the country's emergence as an independent and theoretically democratic state. If it leaves, it will be driven out by "Japan Incorporated," which has succeeded through peaceful means in achieving what military power failed to secure, economic domination of the region. Whatever the pros and cons of Ford's presence, experience elsewhere suggests that Filipinos have fared better at Ford's hands than they will at the hands of the Japanese.

In the long run, however, the question of how much the country benefits from the presence of industrial operations, regardless of ownership, depends upon the Filipinos' ability to govern themselves effectively. Indeed, I would advance

this as general proposition: the behavior and impact of multinational companies depends upon the abiliy of host countries' peoples to govern themselves effectively, for even the most rapacious enterprises can be controlled through effective exercise of political sovereignty and will accept such control as long as their operations remain profitable. On the other hand, firms will not stay if they cannot make money, regardless of how docile the host government may be. This, it seems to me, shows both the dark and bright sides of multinational capitalism: it exists only to make money, but will settle for that and no more. Investment rooted in political ideology, however, may tolerate a lack of profitability, while exacting other, more expensive forms of tribute.

Notes

1. Mira Wilkins, *American Business Abroad*, 2 vols. (Cambridge: Harvard University Press, 1970, 1974).
2. Mira Wilkins and Frank E. Hill, *American Business Abroad: Ford on Six Continents* (Detroit: Wayne State University Press, 1964), 153.
3. Wilkins and Hill, *American Business Abroad: Ford*, 414.
4. Ford Asia-Pacific and South Africa Group, "1980 Plan: Presentation to Mr. Henry Ford II," February 2, 1971. Ford Motor Company document supplied to me by Ford Asia-Pacific, Melbourne, Australia, hereafter cited as "Complementation Plan."
5. "Complementation Plan," 6.
6. Ibid., 7.
7. Ibid., 8.
8. Introduced in 1973, this vehicle, called the "Fiera," proved an instant success. Though little more than a motorized tray with wheels and brakes, topped by

interchangeable bodies that provided pickup-truck or van configurations, the Fiera in its early years embodied components shipped to assembly plants from fourteen different countries.

9. "Complementation Plan," 8.

10. Ibid., 10.

11. Ibid., 9.

12. This figure is not quite as good as it looks, since "local content" is calculated through a complex formula in which export credits count as local content. The actual percentage of Philippine-manufactured components in Philippine-assembled vehicles has, however, risen from about 5 to 50 percent.

13. Ford's foreign-service personnel belie the "Pukka Sahib" image--not that they don't live well, but the overwhelming majority of them regard assignment to such outposts as the Philippines as a major detour on the career path. Consequently, they shun these assignments whenever they can.

14. "Complementation Plan," 6.

EXPORT-ORIENTED INDUSTRIALIZATION, THE INTERNATIONAL DIVISION OF LABOR, AND THE RISE OF THE SUBCONTRACT BOURGEOISIE IN THE PHILIPPINES

Robert T. Snow

Recent interest in dependency theory and the political economy of the world system[1] has focused attention on the changing roles which nations play in the global economy, and the consequences of these changes for their domestic class structures. During the past ten years, the role of the Philippines in the world system has shifted considerably due to the rapid growth in manufactured exports. From the beginning of the colonial era to the present day, the Philippines has been integrated into the world market primarily as a source of raw materials for consumption in the West and, more recently, in Japan. Since the late 1960s, government-backed efforts to encourage the manufacture of industrial goods for export have begun to move the Philippines into a new role in the world market.

I am grateful for the critical comments and assistance of a number of readers of an earlier draft, especially Joel Rocamora, Norman Owen, Lim Mah-Hui, Purificacion Quisumbing, Ben Kerkvliet, Bob Stauffer, Scott McNall, Gary Hawes, Dereck Liebenberg, and Peter Smith. Many of these readers continued to disagree with my conclusions, but their comments were invaluable in helping me reach them.

The rapid growth of export-oriented industrialization (EOI), notably in garments and electronics, has begun to transform the Philippines from a seller of primary commodities to a supplier of cheap labor-power on the world market. This transformation has important implications for the external relations of the Philippines with the industrialized nations, notably its former colonial master, the United States, and with other Third World nations seeking to pursue EOI. Internally, it has consequences for the class structure of the Philippines. It fosters a domestic bourgeoisie tied to the world market in new ways, attracts a new type of foreign investor, and creates a new industrial work force dependent upon the export market.

Under the Spanish, American, and Japanese colonial regimes, the economic, political, and social structures of the Philippines were molded in ways which left the country dependent upon powerful outside nations. Since gaining independence from the United States in 1946, the Philippines has continued to be burdened by the fetters of neocolonialism. Both the official statements of the Philippine government and the demands of its critics emphasize the need for the Philippines to be more independent of the two most prominent neocolonial powers, the United States and Japan. Ultimately, the structural changes brought about in the Philippines by the rapid growth of EOI must be seen against this background. This paper shows that EOI has continued the external dependence of the Philippine economy upon the American market. It has also fostered the growth of a new domestic class of Filipino subcontractors whose interests are as closely tied to the United States as were those of the export-crop plantation owners of the past. In short, EOI may have changed the form of the bonds of dependence, but it has not broken them.

While EOI has not made the Philippines less dependent upon the affluent nations, especially the United States, it

has introduced a new set of conflicts into Philippine external relations. These conflicts take a number of forms. With the affluent nations, the rapid growth of EOI has brought the Philippine government and Philippine-based export companies into conflict with protectionist groups in the United States and elsewhere. In the past, these groups welcomed the export of Philippine raw materials that were to be turned into manufactured goods in the West and Japan. Tariffs and other trade barriers were low. In the industrialized nations, however, fear of loss of markets, and ultimately loss of jobs, because of inexpensive manufactured exports from the Philippines and other Third World nations has fueled protectionism.

Second, the emergence of the Philippines as an exporter of manufactured goods has brought it into competition with neighboring countries pursuing the same strategy. A number of Asian governments are now trying to outbid each other by offering high incentives and low wages to attract EOI foreign investors. Most recently the Philippines appears to be pitted against Sri Lanka and Indonesia in this arena. Countries are also competing to keep the prices of their goods as low as possible and to receive import quotas from the developed nations that are as large as possible. On this front, the entry of the People's Republic of China into the world export-manufacturing market, especially into the garments market, has caused the Philippines and other Asian nations considerable anxiety due to the cheapness of Chinese labor.

Internally, EOI has several effects on the class and political structure of the Philippines. In terms of the working class, EOI fosters the growth of a new, largely female proletariat. EOI has expanded rapidly in East and Southeast Asia because investors have found this part of the world the most suitable source of cheap labor for types of production which have become too expensive in high-wage

countries.[2] The need for a cheap, disciplined, and productive work force, which initially attracted EOI investors to the Philippines and other Asian nations, targets a specific type of worker, namely the young woman. While precise statistics are difficult to obtain, the garment and electronics industries combined employed over a half million women in the Philippines by the late 1970s.[3] If this estimate is correct, EOI would account for over half of the women employed in manufacturing in the Philippines. While this paper will not focus on the importance of this new female workforce,[4] it should be apparent that the creation of a new group of this type, often in concentrated areas around Manila or the export processing zones, has an impact on the women themselves and on their communities. If changes in world market demand for EOI products should lead to large-scale layoffs of these workers, and there is some evidence that this may already be the case, they could become a new political variable on the Philippine domestic scene.

In terms of the industrial elite, EOI promotes a new role for both Filipino and foreign corporations. The primary commodities which form the backbone of Philippine exports have been produced by plantations and mines owned by Filipino and foreign investors. These groups have used their influence to attempt to prevent trade barriers in both the Philippines and in the buyer countries that might restrict the flow of these commodities. During the 1950s and 1960s, the Philippine government encouraged import-substitution industrialization (ISI) to produce goods to supply the domestic market. Again, both Filipino and foreign investors, sometimes with ties to primary commodity producers and sometimes without, established "infant industries" protected by high tariff walls that severely limited competition from goods produced outside the country. The ISI group remains important in the Philippines today,

exerting pressure on the government to continue some degree of tariff protection for these industries.

EOI, modeled on the apparent successes of Hong Kong, Taiwan, Korea, and Singapore, has been encouraged by the Philippine government since the late 1960s. In EOI the state offers incentives for investment in labor-intensive industries, employing extremely low-wage semiskilled workers, whose products have a potential overseas market because of their relatively low labor cost. The tariff structure required by both Filipino and foreign EOI producers is much closer to that of the plantation and mine owners than to the high protectionist barriers erected for ISI industrialists. Raw materials (for example, high-quality textiles for garments or components for electronics) must be allowed entry into the country with few or no tariffs, and finished products must face few tariffs upon leaving the Philippines or entering the buyer country. These conditions are most easily met by enclaves such as export processing zones or bonded areas. The Philippine government has established such sites since 1969. However, further growth of EOI can be expected to produce increasing friction between ISI and EOI groups over the issue of tariff and tax regulations. It should be kept in mind that both Filipino and foreign corporations have invested in ISI and EOI. This is not a conflict *between* a national bourgeoisie and foreign investors.

It is also important to realize that the rise of EOI can bring foreign corporations into conflict with each other. The foreign corporations that invest in the Philippines to produce EOI goods have different interests from those who came in earlier years to exploit Philippine raw materials or the domestic market for ISI industrial goods. EOI producers, requiring, above all, cheap and productive labor and low tariffs on imports and exports, have become a new element in Philippine politics. The

present Philippine government is particularly anxious to attract additional foreign EOI investment. This fact gives corporations that have already established facilities in the Philippines considerable bargaining power.

While the impact of the rapid growth of EOI is important for the Philippine working class and for foreign investors, in this paper I will focus on the consequences of EOI for what I will term the Filipino "subcontract bourgeoisie." It has frequently been assumed in the literature on EOI that foreign investors, particularly transnational corporations, own the facilities which produce the majority of Third World industrial goods for export. However, recent research indicates that in many parts of the Third World this is not the case. Oxford researcher Angus Hone found that direct foreign investors or multinational firms produced no more than 10 percent of Asian manufactured exports in the early 1970s. Deepak Nayyar, using somewhat different sources of evidence, puts the figure slightly higher, at 15 percent for Third World countries as a whole. He adds that the percentage of manufactured exports produced in these countries by transnational corporations "has not registered any significant increase since 1966." Both these studies conclude that the great majority of the goods are in fact produced by local firms tied to Western and Japanese companies by one of several sorts of subcontract agreement.[5]

Subcontracting is not a new phenomenon, but it has grown with surprising speed in the past fifteen years.[6] Susumu Watanabe of the International Labour Office provides the most succinct definition of subcontracting:

> A (parent) firm is said to be "subcontracting" when it requests another independent firm (subcontractor) to undertake the whole or part of an order it has received instead of doing the work itself, while assuming full responsibility

> for the work vis-a-vis the customer. Subcontracting differs from the mere purchase of ready-made parts and components off the shelf in that there is an actual contract between the two parties setting out the specifications of the order.[7]

Subcontracting is attractive to foreign buyer-corporations because it eliminates the risks of establishing a direct subsidiary in a country which, while offering low wages or other advantages, is unfamiliar or poses high risks. The threat of nationalization or revolution is minimized for the foreign corporation, as are the risks of incurring government and worker wrath in the event that slack demand or rising wages force layoffs or the closing of a plant. In short, international subcontracting is the economic equivalent of the Nixon military doctrine: instead of risking direct investment for the production of the goods required, foreign corporations encourage local entrepreneurs to take the risks, while the foreign buyer-companies continue to take the majority of the profits.

EOI in the Philippines

> The 'trade' winds which first roiled up in Japan--and moved westward to Hong Kong, Taiwan, Korea, Singapore--have now touched Philippine shores. Considering the export record of the past seven years--and the track record set by nontraditional exports--it may rightly be said that, trade-wise, the Philippines is the Asian Country whose time has come![8]

Before considering the external and internal impact of EOI, it is important to understand the speed with which it has grown. The emphasis on EOI began in the late 1960s when it became obvious that ISI was stagnating. The growth of

ISI was limited by the small size of the local market for the relatively expensive types of goods produced, while the high levels of government protection undercut market imperatives to operate efficiently. Considerable pressure from President Marcos and the head of the National Economic Development Authority, Gerardo Sicat, pushed legislation encouraging EOI through the Philippine Congress beginning in 1967. To the same end, the Bataan Export Processing Zone was authorized in 1969.[9] International agencies also lobbied for EOI in the Philippines. Advice from the United Nations Industrial Development Office, the United Nations Development Program, the International Labour Office, and the World Bank has been consistent in emphasizing the importance of EOI.[10]

From government statistics, the Philippines has been quite successful with the EOI strategy to date. As tables 1 and 2 show, by 1977, garments and electronics accounted for U.S. $374.5 million in export earnings. This represented 12 percent of the value of all Philippine exports ($3,151 million) for that year. In 1978, combined sales of textiles and garments alone came to $358 million, or almost 60 percent of the sales of the highest single Philippine export earner, coconut oil ($621 million).[11] Until recently the policy has been meeting the government's targets for growth and in some cases exceeding them. From all recent statements, President Marcos intends to maintain and increase the Philippine commitment to EOI.[12]

It is important to note, however, that government export figures may significantly exaggerate the success of EOI. Most EOI products require a high percentage of expensive imported materials (for example, electronic components). If the value of these imported materials was to be subtracted from government statistics on the export earnings of EOI products, the picture would be quite different. Recent information from the Central Bank

TABLE 1

Composition of Philippine Exports
1970, 1974, 1977
(Percentages)

	1970	1974	1977
Traditional exports	89.75	84.70	66.17
Nontraditional exports	9.43	14.87	33.03
(Manufactured)	(8.28)	(12.01)	(22.76)
(Unmanufactured)	(1.15)	(2.86)	(10.27)
Special transactions	0.82	0.43	0.80
TOTAL EXPORTS	100.00	100.00	100.00

Note: "Nontraditional exports" is a term used by the Philippine government to describe export goods other than its traditional raw material and processed exports (especially sugar, coconut products, timber, and minerals).

Source: Sanchez, "Non-traditionals," 170.

indicates that imports of unprocessed and semiprocessed raw materials have increased in recent years and now make up 83 percent of the import payments of the Philippines.[13] The report does not state what percentage of the materials were used in EOI. At a time when the Philippines is suffering from serious balance of payment problems, such reliance upon imported raw materials is a cause for concern.

This caveat aside, the EOI strategy has been seen as a success by the Philippine government and will continue to be an important element in Philippine development plans. All indications are that the continued growth of EOI will have an increasing impact on the role of the Philippines in the world economy, particularly its dependency on its main trading partners, the United States and Japan. Analysis of the changes occurring in this dependency requires an

TABLE 2

Nontraditional Manufactured Products, Ten Lead Exports
1970, 1973, 1977
(FOB Value in U.S. $Million)

		1970	1973	1977	Average Annual Rate of Increase 1970-77
1.	Garments	36.21	57.96	250.24	31.81
2.	Electrical and electronic equipment and components	--	11.32	124.27	∞
3.	Handicrafts	6.52	27.38	75.58	41.91
4.	Chemicals	5.42	10.59	54.58	39.09
5.	Nonmetallic mineral manufactures	3.02	25.16	38.65	43.93
6.	Wood manufactures, excluding plywood, veneer, and lumber	3.95	17.23	35.60	36.90
7.	Food products and beverages	8.25	15.01	30.68	20.64
8.	Machinery and transport equipment	1.06	3.43	27.30	59.06
9.	Cordage, cable, ropes, and twines	1.93	4.55	12.53	30.63
10.	Textile yarn and fabrics	2.81	17.31	12.51	23.78
	SUBTOTAL	69.17	189.94	661.94	38.08
	Others	25.35	36.85	55.04	11.71
	Total Exports of Nontraditional Manufactures	94.52	226.79	716.98	33.57

Source: Sanchez, "Non-traditionals," 173.

examination both of the sources of investment to finance Philippine EOI and of the markets to which EOI products are sold.

Investments and EOI

The source of capital to finance EOI is important both as an indication of the ties between the Philippines and other nations, and as an indication of changes in the class structure of the country. Does EOI increase Philippine dependence on foreign, especially American, investors? Does it create or weaken a Filipino industrial bourgeoisie?

As mentioned earlier, it has often been assumed that EOI is a strategy involving heavy reliance on foreign investors, especially transnational corporations, because of their control of affluent country markets, their access to risk capital, and their experience with the requisite technology. However, as will be shown, domestic entrepreneurs are a very important factor in Philippine EOI. Nevertheless, the Philippine government continues to seek foreign investors for EOI production.

Recent business reports indicate that corporations, at least those from the United States, are still seeking offshore sites. Rising labor costs in the industrialized nations, pushed by inflation, continue to pressure firms to seek Third World production facilities.[14] Offshore producers of manufactured goods covered by protectionist quotas in the West and Japan--notably garments, textiles, and footwear--are being forced to move their overseas facilities from nations whose quotas have largely been filled (for example, Korea and Taiwan) to nations with more open quotas, including the Philippines.[15] Barring serious changes in the world market or the political stability of the Philippines, foreign investment in EOI is apt to continue, although perhaps at a slower rate of growth than during the boom years just after Martial Law was proclaimed.

Estimates of the importance of foreign investors in Philippine EOI vary widely. Hone, for example, found that foreign corporations in the Philippines accounted for just 20 to 25 percent of total manufactured exports in 1971. More recent government figures place the level higher: roughly 50 percent of all investment in EOI in 1973 to 1977 came from foreign investors.[16] This estimate is substantiated by data published by the Board of Investments (BOI): the BOI statistics for 1971 to 1975 show a steady rise in the ratio of foreign to domestic investment in firms approved for special incentives under the Export Incentives Act (R.A. 6135) of 1970, the principal government attempt to nurture EOI (see table 3). These statistics indicate that a large and apparently growing percentage of the investment in all types of export-oriented production considered together is foreign investment.

TABLE 3

Proportion of New Foreign Investment
In Export-oriented Industrialization
1971-1975
(Percentage of total equity in firms approved for special incentives under the Export Incentives Act [R.A. 6135] of 1970)

Year	Percentage
1971	23.4
1972	24.3
1973	32.6
1974	36.0
1975	49.3
Average	36.8

Source: "Foreign Investments," *Philippine Progress* (fourth quarter, 1975):11.

The United States is the largest single foreign investor in the Philippines. At one time, it accounted for 90 percent of all foreign investment in the country, according to *Business Week* estimates. The Philippine government has made considerable effort to diversify the sources of investment to attenuate its dependence upon the United States economy and to some extent has succeeded: "Of the $975 million invested in the country since 1970, 49% has been from U.S. companies, 20% from Japanese, and nearly 10% from Europeans."[17]

Despite a decrease in percentage, it is clear that United States investment in many sectors of the Philippine economy remains high. It is also true that American investment is high in EOI, although precise figures are not available. An examination of the two most important examples of EOI in the Philippines, garments and electronics, provides a partial picture of the investment structure.

While the largest single exporter of garments in the Philippines, Levi Strauss (Phil.), Inc., is an American firm,[18] most garment companies are not U.S.-owned. Statistics from the University of the Philippines Law Center show that just 20.2 percent of all equity in textiles and garments in the "Top 1000" firms is foreign equity.[19] A study by Enrico Paglaban found that "roughly 28 percent of the garment firms are under American control, 23 percent are controlled by other foreigners, and the remainder are Filipino-owned."[20]

Paglaban further notes that American involvement in the sector dates back to the 1930s but became significant only in the 1970s. The influx in the 1970s was pushed by the imposition of quotas in the United States on imports from Japan, Korea, Taiwan, and Hong Kong. The low cost of Philippine labor was also an important incentive. Paglaban found that much of the trade in garments between the United

States and the Philippines is channeled through a consignment or international subcontracting system. Large buyer firms, often American department-store chains such as Sears Roebuck and J.C. Penney, contract with a garment firm in the Philippines to produce items to the buyer's specifications. Recent reports indicate that the Philippine government is encouraging the establishment of "industry villages" or "bonded villages" to permit foreign corporations to bring materials, often cloth for garments, to villages for sewing, processing, or assembly. These villages are to be fenced, duty-free areas specifically designed to sell Philippine labor-power to foreign corporations on a subcontract or consignment basis.[21]

From the trends reported in industry journals and the experience of other Third World nations, it is likely that the percentage of direct foreign investment in the export garment industry in the Philippines will decrease. International subcontracting of various types will expand, encouraging the growth of firms owned and operated by Filipinos.

The dynamics of the electronics industry, unlike those of the garment business, have tended to encourage parent corporations to establish entirely foreign-owned subsidiaries to supply their home-country markets. However, in an increasing number of Asian countries, subcontracting is gaining ground even in electronics.[22] The Philippines has a number of locally owned electronics companies producing for foreign buyer firms.

As of March 1978, the Board of Investments had approved the opening of thirteen foreign-owned electronics companies, of which at least seven were American-owned; however, a total of twenty-three Filipino-owned firms had also been registered.[23] While the report does not give investment statistics for the firms, one can estimate the relative scale of the investment by comparing the estimates given for

"Export Sales at Full Capacity." These figures show that 59 percent of the projected export sales of electronics companies will come from foreign-owned firms, and that 44 percent of electronics export sales will be from American-owned firms alone. If investment is assumed to be roughly proportional to expected export sales, this suggests that the Philippine electronics industry relies heavily on American investment. However, the figures also indicate that Philippine-owned firms account for a healthy 41 percent of electronics export sales.

The importance of Philippine-owned electronics corporations is further demonstrated by export statistics. According to BOI reports, in 1978, 53 percent of Philippine exports of semiconductors, the fastest-growing segment of the local electronics industry, were produced by Filipino companies.[24] This stands in contrast to the experience of many Asian nations during their early years of electronics manufacturing. As with garments, it appears that an increasing amount of the Philippine production for export in electronics is managed on a subcontract or subassembly basis. This trend has parallels in neighboring countries. A recent study of the consumer electronics industry in Asia by Craig Emerson found an increase in subcontracting in countries where the industry had become established (for instance, Korea). As electronics production has developed, countries have acquired greater bargaining power vis-a-vis foreign corporations.[25] In short, evidence from the Philippines and other Asian countries suggests that, despite the high percentage of direct American investment in the Philippine electronics industry at the present time, it may already be close to its peak.

To summarize the argument to this point, it is clear that the expansion of EOI is an important goal of Philippine economic planning and that that goal is, at least to date, being achieved, particularly in garments and electronics.

The role of American investors in these areas is important: 28 percent of garment firms are U.S.-controlled, and, if my estimate is correct, approximately 45 percent of the investment in electronics comes from the United States. However, indications are that Filipino firms producing on a subcontracting basis in both the garment and electronics industries are on the increase.

If this trend continues, it will change Philippine relations with the foreign investors upon whom they have been dependent. In EOI sectors such as garments and electronics, where Philippine entrepreneurs find that they can profitably operate as subcontractors, they will attempt to persuade the Philippine government to reduce or discard incentives originally designed to attract direct foreign investment. Filipino subcontractors will want to control more of the production themselves. This is already beginning to occur and has led to tensions between American and Filipino businesspersons in export and other sectors because of the government's changes in incentives and regulations affecting foreigners.[26] In these ways, the new Filipino EOI-based bourgeoisie may exhibit an independence usually associated with a national bourgeoisie struggling to reduce foreign domination of its economy.

Any reductions in incentives or changes in proforeign regulations, however slight, will displease foreign investors. However, even if Filipino investors eventually dominate the ownership of corporations in the export sector, it is unlikely that this will make them or the economy as a whole less dependent upon the United States and other foreign economies. The invisible bonds of subcontract agreements will replace the more obvious ones of direct investment. Hone puts the case in rather extreme terms when, with regard to Asian EOI, he concludes, "The local capitalists have vanquished the multinational firm, but will they be able to organize against the U.S. multinational

buyers, the Japanese zaitbatsu houses and the European store groups?"[27]

EOI, Markets, and Trade

Like the shifts in investment patterns, the changes which EOI brings about in the markets and trade of the Philippines affect both the relationship of the country to the world economy and the behavior of the new subcontract bourgeoisie toward the West and Japan. Despite government hopes to the contrary, EOI has deepened Philippine dependence upon its principal market, the United States. While this market dependence continues, the Filipino subcontract bourgeoisie cannot exhibit a truly nationalist, independent stance. It will be a captive class, dependent upon orders from American buyers unless new markets can be found. The diversification of markets for all types of exports has been a key goal of the Philippine government because the current dependence on two markets, the United States and Japan, carries with it the risk of disaster in the event of recession in either of those markets. During the past decade, the dependence of Philippine exports taken as a whole on American markets has been reduced somewhat: for the years 1967-1971, the United States took an annual average of 37.5 percent of Philippine exports; for 1972-1976, that figure fell to 30.2 percent.[28]

The dependence of Philippine EOI goods on the American market, however, is almost twice as great as for Philippine exports as a whole. According to the *Daily News Record* (the primary information source for the apparel industry in the United States), Philippine reliance on the American market is in fact decreasing, but from a position of almost complete dependency: "The share of Philippine apparel exports crossing the Pacific to America dropped to 63 percent in 1977 from almost 80 percent a year or two before and 90 percent before that."[29] *Philippine Development*, the

journal of the National Economic and Development Authority, places the level of dependence on the U.S. market somewhat lower:

> The United States still remains the single biggest importer of Philippine garments in spite of the fact that it imposes quotas on all garment items. On the average, it accounted for around 80 percent of the total garments trade in the first half of this decade. In 1975 and 1976 however, this figure declined to 74 and 60 percent respectively, indicating a lessened dependence on a single market and diversification into new, untapped markets. However, exports to the U.S. actually increased by close to 40 percent in 1976. From 1972 to 1976, exports to the United States increased from $32 million to $110 million averaging at [$]48.6 [million] yearly.[30]

Garment exports to the United States are regulated by quota, and the Philippines has usually filled virtually 100 percent of its yearly allocation. The *Daily News Record* pointed out that the 1978 bilateral agreement on garments, which raised the American quota on Philippine garments 30 percent for 1978 but only 3 percent per year for 1979-1982, will mean that the Philippines must either immediately diversify its market for garments from the United States to other nations or face a rapid drop in the expansion of its garment industry, which is currently growing at a rate of 30 percent annually.[31] This means that the dependence on the American garment market is apt to decrease in percentage terms, but not at the initiative of the Philippine government or Filipino garment producers. Even with the

tightened quota, the United States will remain the dominant buyer of Philippine garments for the foreseeable future.

In electronics, the market dominance of the United States is again clear. According to Conrado Sanchez, former Governor of the Board of Investments,

> Close to half of all our electronics exports go to the United States, 24 percent to Western Europe, 8 percent to Japan, and another 8 percent to Singapore. . . . In 1977 . . . 63 percent of the semiconductors made in the Philippines were shipped to the United States.[32]

Implications for the EOI Bourgeoisie

While, as mentioned above, the United States takes approximately 30 percent of total Philippine exports, in garments and semiconductors the United States takes double that share. From this it seems reasonable to conclude that, at the upper end of the class spectrum, the rapid growth in EOI in the Philippines is creating a group of industrialists who are *not* dependent on American investment and who are often in fact in competition with American investment, but who are heavily dependent on the American market. If members of this EOI bourgeoisie are able to diversify the markets for their products, they may be in a position to benefit from competition between American buyers and those from other countries. This may eventually occur, but there is little to indicate that it will happen soon enough and on a large enough scale to bring a significant change in this dependent relationship.

For the foreseeable future this new EOI bourgeoisie and the Philippine government which supports it will do everything in their power to pressure the governments of the industrialized nations, especially the United States, to keep their markets open to Philippine EOI goods. In this

effort they will be joined by American and other foreign investors in the Philippines who are also dependent upon the export market.[33] The tensions will be expressed in the form of Filipino and foreign exporter demands to the affluent-nation governments rather than friction between these two groups in the Philippines.

The Subcontract Bourgeoisie

The precise role of the subcontract bourgeoisie in the shaping of Philippine government policies that affect the dependence of the Philippines on the United States and other industrialized nations, especially incentives for foreign investors, tariff regulations, and tax laws, is in large part determined by the identity of this group and the power that it wields within the Philippine political system. Yet, neither the identity nor the power of the subcontract bourgeoisie has been studied, and neither can easily be determined from the available evidence. One can be more confident in stating who is *not* involved in EOI production. Reports on the financial dealings of the group of cronies closest to the Marcos family reveal almost no holdings in garments or electronics. Instead, investments in banking, insurance, construction, real estate, hotels, resorts, agribusiness, and manufacturing for the domestic market prevail.[34] This is not surprising, given the high rate of profit to be earned from these sectors, particularly when the investors have the backing of well-placed persons in the regime. For the same reason, the risks in such sectors are relatively low compared with the vagaries of the world market. Anecdotal information from the Philippines suggests that subcontracting may be the domain of less politically and economically influential entrepreneurs, including many ethnic Chinese, who are willing to accept the risks of unstable world market-conditions.

While not part of the inner circle close to President Marcos, these firms are not necessarily small. For example, a recent article in *Philippine Development* notes, with respect to garment, textile, and clothing exports, that the export promotion policies of the government primarily benefit large corporations:

> One of the major problems of the industry is the neglect of the development of small-and-medium-scale textile and garment firms. The BOI incentives almost always benefit only the big firms, which are also the ones that easily avail [themselves] of the world market quotas.[35]

From the limited information available, Philippine EOI subcontractors do not appear to be part of the politically influential circle around President Marcos; however, they are powerful enough to obtain a portion of the politically allocated export quotas. Further research is required before one can come to clear conclusions about the identity and political importance of the subcontractors.

EOI: Problems for the Future

Most of the discussion above has been based on the assumption that EOI will continue to flourish in the Philippines. President Marcos himself has raised the issue of the continued dependence of the ASEAN nations upon the West and Japan if the EOI strategy continues to grow in importance.[36] He stresses the EOI-related problems of reliance on foreign investors and markets and of growing inequalities of wealth within the ASEAN nations.

It is, however, quite possible that EOI in the Philippines will *not* continue to expand, at least during the coming few years. The world market as a whole and the Philippines in particular face a difficult period that may alter the course of EOI and the type of dependence which it

fosters. First, the United States and the world are in a serious recession. This recession has to cut sharply into affluent-nation demand for Third World exports.[37] At the same time, growing unemployment in the industrialized nations has increased pressures for protectionism to exclude Third World EOI products. As mentioned above, for some time this has been the object of Philippine government criticism of quotas imposed on garments and textiles by the United States and other affluent nations. The worldwide recession and growing protectionism have hindered Philippine EOI efforts.

Another specter closer to home is the possibility that the Philippines will lose its share of the EOI market to some of its neighbors. As mentioned earlier, there is mounting anxiety that other Asian nations, particularly the People's Republic of China, will be able to undercut Philippine production costs on the world EOI market. In a May 1979 article entitled "Peking's Threat," the head of the Philippine Export Processing Zone Authority stated, "We anticipate that China will be a major competitor in the future and they can easily outsell everybody with their cheap labor."[38] If China, Indonesia, or Sri Lanka proves more successful than the Philippines in keeping wages low and productivity high, the Philippines' EOI campaign might be short-lived.

Finally, even if the Philippine EOI drive can survive the recession, protectionism, and the threat from neighbors with cheaper labor, internal political unrest may make the Philippines a less attractive site for direct foreign investments and even for subcontract agreements which require delivery by a specified date. These problems were brought to the attention of the American business community in a series of *New York Times* stories during 1979; by *Business Week* in an August 1979 article entitled "Problems in the Philippines Chill an Economic Boom"; and by *Business*

Asia in a September 1979 article entitled "Growing Political Unrest in the Philippines Will Prompt Crackdown."[39] The latter gives the following advice to American corporations operating in the Philippines:

- The immediate threat is criticism of international companies operating in the R.P. from groups in their home countries as Marcos increases repression.
- The medium-range danger is that economic policy shifts aimed at bailing out the martial law regime will run counter to companies' interests.
- The long-range risk is that when Marcos departs, links with the current economic and political elite that have been carefully built may not survive. . . . Should he be forced out, many of the distributors, joint venture partners, and customers connected to Malacanang will become--at best--less effective. They could easily become major liabilities.[40]

Warnings by major business periodicals of the threat of revolution or coup d'etat have a serious adverse effect on a nation's investment climate, and this can only raise doubts in the minds of potential EOI investors or buyer-firms seeking subcontractors. For the first two months of 1979, government sources reported a drop of 36 percent in new American investments compared with the same period one year earlier.[41] More recent information confirms this trend. The decrease in foreign investment made the Philippines, and all the ASEAN governments, more conciliatory towards potential investors.[42]

Other serious problems threatening the government's development strategy include the rapidly increasing cost of imported energy, the already high and still growing $9 billion foreign debt (the debt increased to

U.S. $16 billion by 1982),[43] and the uncertain market for traditional Philippine commodity exports.[44] As shown above, Philippine EOI exports grew very rapidly through 1978, but recent reports indicate that nontraditional exports (largely made up of EOI manufactures), notably garments, did not do as well in 1979 as in previous years.[45] At the end of 1979 the Philippine Ministry of Labor reported that 146,000 workers in Metro Manila had been laid off during the first nine months of the year. The report stated that the garment and textile industries were the most seriously affected. Together these two industries accounted for about 80 percent of the total number of workers dismissed.[46] If this declining demand for Philippine garments and textiles continues, large numbers of the women workers who have been drawn into EOI industries will be forced out. It will also put pressure on the subcontract bourgeoisie, faced with fewer buyers on one hand and angry laid-off workers on the other.

Conclusion

During the 1970s, the role of the Philippines in the international division of labor changed. The nation began to evolve from a producer of primary products to a producer of labor-intensive manufactured goods. EOI grew very rapidly, particularly in garments and electronics. This shift in the role of the Philippines in the world market has certain consequences for Philippine relations with foreign countries and for the nation's internal class structure. First, with respect to foreign investment, the Philippines has always been dominated by American corporations. EOI does not appear to have significantly altered this: the United States is still the largest single foreign investor in both garments and electronics. However, Philippine corporations operating on a subcontract basis control a large share of the garment and electronics industries. While this situation might result from the growing economic

autonomy of Filipino entrepreneurs in EOI, an examination of foreign trade statistics shows that producers of garments and electronics for export are even more overwhelmingly dependent upon the American market than Philippine exports taken as a whole. Although this dependence appears to be abating somewhat, at least through the 1970s between two-thirds and three-quarters of Philippine garments and electronics exports were still sold to the United States.

This situation has created a Filipino EOI bourgeoisie which may appear to be nationalistic in terms of resenting direct foreign investment in the Philippines; however, it remains dependent upon overseas markets, especially the American market. This subcontract bourgeoisie may come into conflict with American and other foreign investors over Philippine government incentives to attract foreign capital. Incentives have already been changed, provoking considerable outcry on the part of foreign corporations that the government's investment policy is "inconsistent," and that this constitutes "a major disincentive to potential foreign investors."[47] There are complaints that the government keeps changing the "rules of the game."[48] By 1982, economic pressures had changed this situation in favor of the foreign investors:

> Representatives of American multinationals with substantial investments in the Philippines in particular are said to be happier in the current business climate--the sporadic vested interest campaigns against them in the local press which characterised previous years have now died down.[49]

Yet, even if this EOI bourgeoisie eventually lobbies successfully to keep foreign investors out of these sectors, it is, and will continue for the foreseeable future to be, directly dependent on the American market. Members of this class may appear to be nationalists in terms of their

posture towards direct foreign investment, but they will be compradores with respect to the American market. This foreign-market dependence increasingly brings them into conflict with the quotas and rising protectionism of the industrialized nations.

Finally, the future of Philippine EOI and of the subcontract bourgeoisie is affected by much broader forces at work in the world system: recession, protectionism, Philippine competition with neighboring countries, and the stability of the Marcos regime itself. There are serious problems in all these areas. As the risks for direct foreign investment in the Philippines rise, investors will rely more and more heavily upon Filipino subcontractors. This is a direct parallel in the economic sector to the Nixon doctrine in the military sector: Filipino entrepreneurs will be put in the position of taking the risks of investment and the blame for bad conditions for workers while foreign corporations remain secure, their hands clean, collecting the lion's share of the profits.

Export-oriented industrialization has altered both the role that the Philippines plays in the international division of labor and its internal class structure. It has changed the form of the dependent relations between the Philippines and the industrialized nations, especially the United States, but it has not reduced or broken the bonds of dependency.

Notes

1. The most widely known theorists in this area are Samir Amin, Andre Gunder Frank, and Immanuel Wallerstein, although a very large body of literature has grown up around them, both agreeing and disagreeing with their work. Two of the best critical overviews of the field are Gabriel Palma, "Dependency: A Formal Theory of Underdevelopment or a Methodology for the Analysis of Concrete Situations of Underdevelopment?" *World Development* 6, no. 7 (1978): 881-924, which includes a thorough bibliography; and Robert Brenner, "The Origins of Capitalist Development: A Critique of Neo-Smithian Marxism," *New Left Review*, July-August 1977, 25-92.

2. See "Asia's New Bidders for Western Plants," *Business Week*, 17 Mar. 1980, 48D-48P.

3. Conrado Sanchez, Jr., "Non-traditionals Spearhead Export Growth," *Fookien Times Yearbook* (1978):170-73; "Garments: From Rags to Riches," *Philippine Development*, 31 July 1978, 18-23.

4. The 1977 *Philippine Statistical Yearbook* (Manila: National Economic and Development Authority, 1977), 45, states that 772,000 women were employed in manufacturing in 1975. For a further discussion of export-oriented industrialization and the growth of a female labor force, see Myrna Blake, "Asian Women in Formal and Non-formal Sectors" (paper prepared for the United Nations Asian and Pacific Centre for Women and Development, Bangkok, February 1979); Rachael Grossman, "Women's Place in the Integrated Circuit," *Southeast*

Asia Chronicle, no. 66 (1979):2-17; Linda Lim, "Women and the Redeployment of Industry" (paper prepared for the United Nations Industrial Development Office, Vienna, December 1979); A. Lin Neumann, "Philippine Export Zone: Success at Expense of Women Workers," *Response* (September 1979):12-14; and Robert T. Snow, "Multinational Corporations in Asia: The Labor Intensive Factory," *Bulletin of Concerned Asian Scholars* 11, no. 4 (1979):26-29.

5. Angus Hone, "Multinational Corporations and Multinational Buying Groups: Their Impact on the Growth of Asia's Exports of Manufactures--Myths and Realities," *World Development* 2 (1974):148; Deepak Nayyar, "Transnational Corporations and Manufactured Exports from Poor Countries," *Economic Journal* 88 (March 1978):78. On transnational corporation ownership of production facilities for Third World export goods, see G. K. Heilleiner, "Export Earnings within the Multinational Company Framework," *Far East Trade and Development* (August 1972), and "Manufactured Exports from Less Developed Countries and Multinational Firms," *Economic Journal* 83 (March 1973):21-47.

6. Nayyar, "Transnational Corporations"; Michael Sharpston, "International Subcontracting," *World Development* 4 (1976):333-37.

7. Susumu Watanabe, "International Subcontracting: Employment and Skill Promotion," *International Labor Review* 105, no. 5 (1972):425.

8. Sanchez, "Non-traditionals," 173. At the time Sanchez was governor of the Board of Investments.

9. For further background on the shift to EOI, see Ferdinand Marcos, "Southeast Asia in the Year 2000," *Contemporary Southeast Asia* 1 (May 1979):10-13; Enrico Paglaban, "Philippines: Workers in the Export

Industry," *Pacific Research* 9, nos. 3, 4 (March-June 1978):1-31. Sanchez, "Non-traditionals"; and Robert T. Snow, "Dependent Development and the New Industrial Worker" (Ph.D. diss., Harvard University, 1977).

10. "Free Trade Zones & Industrialization of Asia," *AMPO: Japan-Asia Quarterly Review*, vol. 8, no. 4, and vol. 9, nos. 1, 2 (1977); International Labour Office, *Sharing in Development: A Program of Employment, Equity, and Growth for the Philippines* (Geneva and Manila: International Labour Office, 1974), 109ff.; World Bank, *The Philippines: Priorities and Prospects for Development* (Manila and Washington, D.C.: World Bank, 1976), 23-25; and, of particular significance, Walden Bello, David Kinley, and Elaine Elinson, *Development Debacle: The World Bank in the Philippines* (San Francisco: Institute for Food and Development Policy, 1982).

11. "Patterns and Prospects of Philippine Exports," *Philippine Development*, 15 Apr. 1979, 27.

12. See, for example, "A Discussion with Ferdinand Marcos," *Business Week*, 6 June 1979, 25.

13. "Trade News," *Manila Journal*, 10 Mar. 1980 - 16 Mar. 1980.

14. See, for example, E. T. Smith, "Companies Set Sights on Overseas Sites," *Electronic Business* (May 1979):90-103.

15. *Data Fil*, 1-15 June 1978, 3847.

16. Hone, "Multinational Corporations," 148; Gerardo P. Sicat, "Review of Implement Policies and Programs 1972-1977 and Major Development Thrust in the Next Ten Years," *Fookien Times Yearbook* (1978):156.

17. "Problems in the Philippines Chill an Economic Boom," *Business Week*, 27 Aug. 1979, 51.

18. *Data Fil*, 1-15 May 1978, 3792.

19. *Data Fil*, 1-15 July 1978, 3903.

20. Paglaban, "Philippines: Workers," 6.

21. See "Philippines," *Asia Research Bulletin*, sec. 3 (February 1980):657-58; and "Bonded Villages," *Ibon--Facts and Figures*, 31 Oct. 1979.

22. See Lee Ann Reynis, "The Proliferation of U.S. Firm Third World Offshore Sourcing in the Mid-to-late 1960s: An Historical and Empirical Study of Factors which Occasioned the Location of Production for the U.S. Market Abroad" (Ph.D. diss., University of Michigan, 1976); and Craig Emerson, "Transnational Corporations in the Consumer Electronics Industry of Developing ESCAP Countries," *Economic Bulletin for Asia and the Pacific* 29, no. 2 (December 1978):50-74.

23. "Electronics Firms Registered Approved by BOI as of March, 1979," list obtained from Board of Investments, Manila, 1979.

24. Conrado Sanchez, Jr., "Electronics: A Dynamic Export Industry in the Philippines" (paper presented at ENEX-ASIA meetings, Singapore, 6 November 1978), 6.

25. Emerson, "Transnational Corporations in Consumer Electronics," 68.

26. The most celebrated recent cases--involving Avon Cosmetics and Continental Can--do not involve the export sector but show the tensions between the Philippine and foreign business communities. "With the government trying harder to attract foreign investment to supply jobs, capital inflow, and exports, and to reduce protection of industries that have yet to become competitive, local companies are likely to be vociferous opponents" ("Two Cases Show Problems in

Philippines from Local Opposition," *Business Asia*, 25 May 1979, 164).

27. Hone, "Multinational Corporations," 148.

28. "Patterns and Prospects," *Philippine Development*.

29. "Imports," *Daily News Record*, 9 Oct. 1979, 1.

30. "Garments," *Philippine Development*, 21-22.

31. "Imports," *Daily News Record*.

32. Sanchez, "Electronics," 5.

33. See, for example, "Obstacles to Expanded U.S. Trade and Investments in Asia-Pacific Region," *AmCham Journal* (April 1978); and "Pacific Basin Economic Council, Manila Conference," *AmCham Journal* (July 1978).

34. See "Some are Smarter than Others" (anonymous paper prepared by "a group of concerned businessmen and professional managers" in Manila, mimeographed, 1979).

35. "Patterns and Prospects," *Philippine Development*, 23.

36. Marcos, "Southeast Asia."

37. See, for example, Bruce Nussbaum, "Squeezing the Borrowers," *Far Eastern Economic Review*, 19 Oct. 1979, 73.

38. Adlai J. Amor, "Peking's Threat," *Data Fil*, 16-31 May 1979, 356.

39. "Problems in the Philippines Chill an Economic Boom," *Business Week*, 27 Aug. 1979, 50-54; "Growing Political Unrest in the Philippines Will Prompt Crackdown," *Business Asia*, 14 Sept. 1979, 289-90.

40. "Growing Political Unrest," *Business Asia*, 289-90.

41. *Data Fil*, 16-31 Mar. 1979, 194.

42. "Southeast Asia: A Siren Song for Foreign Investors," *Business Week*, 28 Feb. 1983, 42.

43. Rodney Tasker, "Support for a Strongman," *Far Eastern Economic Review*, 29 Oct. 1982, 32.

44. Mike Kendall, "Philippines Economy in Trouble," *Honolulu Sunday Advertiser*, 13 Apr. 1980, p. B-3.

45. "Trade News," *Manila Journal*, 10-16 Mar. 1980.

46. "Mass Layoff Hits Metro Manila," *Philippine Times* 9, no. 40 (22 October 1979):1.

47. *Data Fil*, 1-15 Dec. 1978, 4183.

48. *Data Fil*, 16-31 Jan. 1979, 34.

49. Tasker, "Support for a Strongman," B3.

AN ANALYSIS OF REACTIONS OF INVESTORS TO THE RECENT INVESTMENT CLIMATE IN THE PHILIPPINES

Victor M. Ordoñez

From a number of different perspectives, the present time is one of crisis for the Philippines and its economy. Gunnar Myrdal has compared the country to Iran; *Time* has called it the "Pacific powder keg"; its critics are shouting louder than before that its doom is imminent.

Indeed, the facts draw very stark lines: the balance-of-trade deficit estimated for 1979 is $1.6 billion, an all-time high. The total external debt is likewise at an all-time high of $8.7 billion, and if the country is to continue to grow, indeed to survive, considering its import (especially oil) and industrialization requirements, an infusion of added investments from the outside is needed.

Interestingly, it is also a period of crisis for the entire global community. The 1975-1985 decade, though not as turbulent as the sixties nor as bloody as the war years, may nevertheless be the most profoundly disturbing decade in the century. There is simultaneously a mood of confrontationism and a heightened awareness of greater

---

This paper was originally presented at a seminar in November 1979. Although the text has been revised to some extent, statistical data have not been updated. For sources of data, see "Bibliographic Note."

interdependency than ever before. Too many hopes, schemes, and formulas of earlier decades have been shattered and there is a creeping weariness and disillusionment as the world watches the energy, population, and equity problems loom larger and larger. Between investing countries and recipient countries there is a growing attitude of mutual distrust--not unfounded in most instances--just when the need for, and mutual opportunity to gain from, investment interdependency is greater than ever.

It is the intention of this paper to look at this mutual distrust on the part of both investors and recipients, to understand its causes (which can often be considered the logical consequence of given economic and policy frameworks), and to help clear the air of the smoke of emotionalism, nationalistic chauvinism, and ideological baggage that so often accompanies discussions of the topic.

The approach attempted is one by a noneconomist addressed to noneconomists, although the matter will require a generous dose of economics and quantitative data. And, because of the rather convoluted title of the paper, it is perhaps best to break it down into the four implied component parts, from the last to the first. Therefore, the first part will deal with the recent climate in the Philippines in general, the second part with the resultant investment climate in particular, the third part with the reactions of foreign investors to this climate, and the fourth part with an analysis of these reactions.

Recent Philippine Climate: An Overview

As with any national economy, that of the Philippines is characterized by bright aspects and dark aspects. I will attempt to lay out both aspects separately and then summarize the Philippine government response to the situation.

On the bright side, the Gross National Product (GNP), while still a modest $24 billion, has grown consistently over the past several years at an annual rate between 5 and 6 percent in real terms, lower than its neighbors in the Association of Southeast Asian Nations (ASEAN), but higher than all other developing nations except Brazil, Tunisia, and Turkey. Per capita income, while also still small, has nevertheless risen from $214 in 1972 to $524 in 1979, more than doubling in that period. The income share of the lower half of the population has improved so that it now earns 29 percent of the total national income compared to 18 percent in 1972.

Prior investments for the future have begun to pay off, so that the funds poured into the Masagana 99 program have made the Philippines a net exporter of rice since 1977 (as late as 1970 the Philippines imported $500 million worth of rice). Infrastructure projects, for which budgets have escalated from $150 million in 1971 to $1.65 billion in 1978, now provide the structures that will be useful in the future.

The Philippine prospects for energy are not as hopeless as they were once thought to be. Present Philippine oil finds are already supplying 15 percent of the requirements of the country, and it is projected that they will supply approximately 50 percent by 1986. In the meantime, alternative forms of energy are rapidly being developed. Hydro and especially geothermal sources of power are expected to provide much of the country's energy in the years to come. Production of alcogas from both sugar and ipil-ipil is being developed. Natural coal is also being mined and abundant reserves are apparently available.

Finally, and still on the bright side, the Philippines has manifested an extraordinary talent for debt management. In 1978 there was in fact a net capital inflow of $66.9 million, and the Philippines has proved its ability

both to seek more loans and to repay its debts. A net capital outflow was predicted for 1979 due to oil price increases and other factors that will be discussed below, but in spite of that the 1979 record shows a 100 percent increase in public debt repayment and a 65 percent increase in private debt repayment. The debt-servicing ratio of the country has remained at least 2 percent below the danger level of 20 percent set by the World Bank, preserving the nation's AA credit rating. Prime Minister Cesar Virata has continued to negotiate extensions of maturities, higher debt ceilings, additional sources, and better terms from international financial institutions, indicating high credibility with lending agencies.

Turning to the dark side, Philippine inflation figures for November 1979 are running between 20 and 21 percent and should round out to a figure of about 18 percent inflation for the year, much higher than the rate of the two preceding years but lower than the 40 percent inflation figure registered in 1974. The biggest price increases are in gasoline, oil, electricity, and water (which will probably register a 30 percent increase in 1979); services (which will register about 25 percent); and food, shelter, and clothing (which will register a 16 or 17 percent increase over the year). Average wages measured in real terms are down by about 13 percent since 1972. More importantly, the rich-poor gap continues to be severe. Even if there has been some improvement in the income-share picture, the top 5 percent of the population still earns 25 percent of the national income and controls a whopping 90 percent of total private assets.

The biggest single factor in inflation, of course, is the price increase for oil imports. An anticipated 40 percent increase in import bills for 1979 will mean at least $80 million more than was spent on oil the year before.

As indicated earlier, the trade deficit for 1979 is expected to be $1.6 billion, compared to $1.3 billion in 1978. While oil prices have risen, prices for sugar, copper, and other traditional Philippine exports continue to be depressed. While the export sector recorded a 23 percent growth rate in the first half of 1979, a slackening of Central Bank vigilance has permitted exports to rise by 33 percent.

The total external debt of the country, about half of which is private and half public, is running at approximately $8.7 billion and will be over $9 billion by year end, compared to $8 billion as of last year. This is the equivalent of about one-third of total GNP. About 50 percent of new debts, those recently negotiated for better terms, are used to service older, more expensive debts.

The Philippine government response to this situation was articulated in a speech delivered by President Marcos on September 28, 1979, outlining the major economic policy guidelines of the country for the 1980s. In that particular speech he indicated three cornerstones of this plan for the next decade:

1. An ambitious program for industrializing the country through eleven major projects that will, in effect, require about $6 billion of additional investment.

2. A renewed push for the export orientation of the country, shifting from traditional resource-based export dependence to import-re-export schemes such as those effectively used by the miracle economy countries of Korea, Taiwan, Singapore, and Hong Kong.

3. A program to come as close to self-sufficiency in energy as possible by the end of the 1980s.

In a further elaboration of this program at a meeting with exporters and key officials of the Ministry of Trade, President Marcos explained his industrialization strategy. The country would aim for a further rise in debt ceilings and a further invitation to investors to finance the establishment of major industrialization projects which would, once and for all, liberate the Philippines from its dependence on external markets for both upstream and downstream production. He has opted, in effect, for a direction that would make the Philippine external debt situation worse in order to make it better eventually, rather than to maintain its present difficult state. On the subject of his drive for exports, the president explained that his purpose was, first, to limit the outflow of dollars; second, to optimize production capacity and competitive advantages already existing in the country; and third, to encourage both upstream and downstream integration of present export and trading activities.

The Resultant Investment Climate

In view of the president's drive for industrialization, export, and energy, it is clear that foreign investment will continue to be welcome in the Philippines.

The Marcos administration has traditionally been considered supportive of foreign investment. In fact, his critics have pointed to his desire to protect foreign investment from zealous nationalism and political instability as one of the reasons for which martial law was declared in 1972. In any case, the president did amend the Investment Incentive Act and the Exports Incentives Act in 1973 and 1974 and activated the Export Processing Zone Authority. Included in those amendments are increased incentives for investors and exporters, including tax credits, suspension of capital gains tax, tax holidays, exemptions from export fees and taxes, and so on. The

traditional limit on foreign ownership and foreign investment in saturated nonpioneer industries was maintained, but with clear encouragement of stability and incentives for foreign investors in other industries.

As a result, during the period 1972-1974 there was a 350 percent growth in foreign investment compared to a 150 percent growth in domestic investment. By the end of that period, foreign investments rose to 117 percent of domestic investments from an original 60 percent in 1972.

More recently, a drop in dollar reserves within the country became apparent. The target of attracting an additional $500 million annually was not being met. There were a number of reasons for this. First, the outflow of dollars overtook the inflow, largely because of greater import buying and rising inventory levels, in anticipation of price increases due to oil. Second, there was an increase in the rate at which external debts were repaid. Third, a significant amount of local investment capital was leaving the country, purportedly on the grounds of Philippine investment in other countries, although a portion of that must be explained as the salting away of dollars.

Because of this concern for low dollar reserves and because of the announced threefold program of industrialization, export, and energy, the president has explicitly invited and encouraged foreign investment on several occasions. The industrialization program for the decade of the eighties invites investors for eleven major projects: an integrated steel mill, a petrochemical complex, a copper smelter, a phosphatic fertilizer plant, an aluminum smelter, diesel engine manufacture, an integrated pulp and paper industry, an expansion of the cement industry, a rationalization of the coconut industry, the development of nonconventional sources of energy, and fabrication for heavy industry.

The exports thrust received a major boost by the creation in October 1979 of the Bonded Export Manufacturing Warehouse Board, around which the new minister of trade hoped to identify one hundred nontraditional export products, to group manufacturer proponents for each one around a bonded warehouse, and to rationalize their production while simultaneously giving them the duty-free import and tax-free export benefits of a bonded manufacturing warehouse, somewhat analogous to a "mini" export processing zone.

Reactions of Investors

In spite of the open and encouraging investment climate in the Philippines today, there has not been a rapidly increasing foreign investment inflow. Investors take the face value invitations and incentives with a grain of salt and are concerned about past experiences with changing contracts on the one hand and future prospects for long-term stability and ease of implementation on the other.

Foreign firms, though cautious, are still interested, however, and continue to invest while a more subtle love-hate relationship develops between them and the host country.

In 1976, a group of major American, Japanese, and Australian investors in the ASEAN region convened in Manila to discuss a positive strategy for foreign investment under the auspices of The Pacific Forum. In the course of their discussion, their concerns relative to overseas investments emerged. The predominant fear was that of a depreciating or floating contract, according to which the host countries could, by national legislation or executive decree, unilaterally change the terms of agreement "on the grounds of the national self-interest." Of course, when this occurs it becomes a matter of judgment as to whether the original

contracts were inherently unjust or whether nationalism was used as an excuse to cover other motives.

Second, investors spoke repeatedly of the "national treatment" provision recommended by the Organization for Economic Cooperation and Development (OECD), according to which foreign investors may avail themselves of the same business privileges as nationals, similar to the status of the Americans in the Philippines prior to the expiration of the Laurel-Langley Treaty in 1974. Investors had difficulty with limits on local borrowings, predetermined debt-to-equity ratios, and a restriction on the limits of their growth.

Third, the investors talked at length about the fairness of the expectation of greater profits where greater risks prevail. The latter included market risks, as in the case of small countries; financial risks, as in the case of inflation, national monetary supply policy, and oil; or political risks, as in the case of nationalization, repatriation, or an overthrow of the regime.

Looking beyond the articulated concerns of the investors, there are a number of deterrents to foreign investment that are rooted, not in the Philippines, but in the home countries of the investors themselves. For example, Korea and neighboring investing countries actively seek investment and trade in the Philippines to take advantage of competitive labor costs, underutilized Philippine export quotas to developed countries, and its aggressive export-growth infrastructure. By contrast, the United States does not have a trade surplus, is not as geographically close to the Philippines, and does not enjoy as high an economic growth rate.

In fact, the United States, which is the major foreign investor in the Philippines, is currently experiencing its own economic crisis. Inflation has made the domestic market more attractive than before and the United States trade

deficit calls for curtailment of investments and trade. Moreover, recent government scrutiny of the ethics of multinational corporations abroad and pressure exerted by American labor against its displacement by the developing countries' "sweat-shop" production of goods have played a role in reducing foreign investment. Finally, the energy squeeze in the United States has prompted investors to gird up and retrench domestically rather than expand abroad.

A final comment on the hesitancy of foreign investors in spite of an apparently encouraging investment climate might be made here. The postwar expansionist economy of the United States, which was simultaneously rebuilding Europe and Japan, permitted a foreign-investment orientation to thrive. Since Europe and Japan have not only been rebuilt but have emerged as active competitors, and since the mark and the yen have recently fared better than the dollar, this expansionist attitude no longer exists. On technical and production levels, the rapid development of entirely new industries such as the transportation, communications, and, more recently, electronics industries seems to be a phenomenon of the fifties and sixties that is not repeating itself on the same scale in the seventies and eighties. Third, the American government's policy of deficit spending to generate full employment and provide welfare has resulted in a higher tax structure (promoting its own inflation), an environment which makes foreign investment less inviting.

Analysis of These Reactions

A basic premise of the analysis below must be made explicit at this point. A decision to accept the reality of interdependence must be made. In the years to come the Philippines will be more and more interdependent with other nations from the points of view of finance, energy, and trade. The alternative of absolute sequestration is highly unlikely in view of the present power structure, highly

difficult to achieve, and highly undesirable in the eyes of most. China, which best exemplified the sequestration alternative, has now itself articulated a desire for foreign investment. In Burma, another obvious example of sequestration, there is little that can be found to commend the policy.

It follows, then, that foreign investment, together with other forms of foreign capital asset inflow (such as loans, export income, aid, and nonmerchandise trade) will be necessary to support Philippine capital-growth requirements in the future. This investment should be encouraged to grow, but should be accepted *only* in a manner in which the Philippine interests are protected. It is hoped that the many lessons contained in past patterns of foreign investment will be heeded and used to guide policymakers to formulate investment frameworks both satisfactory to investors and protective of the country's interests.

It will in fact be the thesis of this analysis to show that the apparently erratic foreign investment policy of the Philippines has not been the result of whim, but has been to some extent dictated as a logical response to the stages of its economic growth, even though this response often has been delayed by the time lag of polity and the perceptions of policymakers. Therefore, expanding on the framework articulated by Roxas for investment patterns,[1] this analysis will proceed by (1) describing particular socioeconomic stages, (2) looking at the activity of investors and traders in each stage, (3) examining the Philippine government reaction to that investor activity, and (4) looking at the new *modus vivendi* for the investor subsequent to that new investment climate, setting the next socioeconomic stage.

First Stage

This stage dates back to the introduction of foreign goods for trade, which resulted in the polarization of

traditional society into the subsistence-level rural class outside the cash economy on the one hand, and the moneyed class with access to external goods through a cash economy on the other. From this second group evolved the investment enclaves of the country. These enclaves, best typified by plantations and mining towns (and in a larger sense by Manila itself), were self-contained systems with political, economic, and social dynamics quite different from those of the countryside around them and in many ways more closely related to and dependent upon the community of the external investor than upon their rural neighbors.

A significant figure in this economic stage was the comprador, usually Chinese, who served as the effective middleman between the large traders from the Asian continent (later from the West) and the Filipino enclave buyers. Slowly the Chinese comprador established a firm hold on the rice and coconut distribution channels in the Philippines in the same way that he controlled tin in Malaysia and rice in Thailand. These same channels were soon used the other way, to supply consumer goods, and before too long even the retail trade was Chinese.

Investment and trading activity took the form of large-scale Philippine importation of necessary food and textiles from outside and exportation of Philippine raw materials for processing. Preferential trade arrangements with the United States in the early part of this century permitted American investors to enjoy prime access to Philippine profit opportunities. In fact, this was so profitable that American domestic producers of beet sugar, vegetable oil, and other commodities eventually lobbied in the United States Congress to grant the colony early independence and install tariff barriers which would make imports from the Philippines less attractive. The Tydings-McDuffie Act of 1934 resulted from this lobbying.

The Philippine government reaction to the growing stranglehold of Chinese compradors and United States investors was an attempt to transfer as much ownership as possible into Filipino hands. Retail trade was nationalized and Filipino ownership prescribed. Compromises were made, however, in industries and activities that required either a foreign market or a foreign provider of a specific technology. For a good number of industries, the 40:60 ratio of foreign to Filipino ownership was introduced.

Even after the Philippines was "granted" independence in 1946, foreign investors and their Filipino counterparts continued to enjoy preferential trade arrangements guaranteed by the Bell Trade Act and the Laurel-Langley Agreement. The period after independence saw the emergence of a "Filipino First" policy, originally enunciated by President Garcia in 1949, involving the nationalization of retail trade and encouragement of Philippines-United States joint ventures, generating a new breed of Filipino entrepreneurs and investment partners while continuing to provide American investors with plenty of opportunity for participation in Philippine growth. This led to the second stage.

Second Stage

In the period immediately following independence, the enclaves and metropolitan centers in the Philippines continued to develop with no significant impact on the noncash, rural sector, which supported itself by expanding the frontiers of its arable land. American and joint-venture investments flourished, and food, textiles, and mass commodities continued to be imported from the United States at preferential rates, with the aid of the dollar inflow from war-damage payments. In 1949, 60 percent of all imports were basic mass-market items from the United States.

American investments and trade continued to grow and traditional exports increased as well.

As war-damage dollars began to dry up, however, government reaction to these investment and trading patterns resulted in a policy of protectionism and import control. Officials soon realized that mere transfer of ownership was not enough, since the power of the enclaves lay not so much in their ownership, but in the way they affected the total economy. Import controls were imposed, with average import taxes rising from 23 percent in 1949 to 36 percent in 1957. The import-control objective was threefold: to keep needed dollar reserves in the country, to protect new local industries, and to develop import-substitution manufacture.

In response to this new climate and the resulting government policies, the manufacturing sector developed very rapidly; in 1950, $23 million were invested in the manufacturing sector, but by 1963 this figure had more than quadrupled, to $110 million. An example of this was the development of the local textile industry, which had produced less than one-sixth of the volume of imported textiles in 1949, but expanded until it was producing four times the imported-textile volume by 1967. Generally, however, manufacturing took the form of value-added assembly of imported components, rather than integrated manufacture. By and large, the greatest beneficiaries of the manufacturing and import-substitution boom continued to be American investors and their Philippine and Chinese counterparts who enjoyed preferential treatment according to the Laurel-Langley Act and who encouraged licensing, patent protection, royalties, and repatriation of dividends.

Third Stage

By the beginning of the 1970s, the level of American investment activity in the Philippines had exceeded the $1 billion mark. Amid cries of nationalism and a threat to

the stability of the present administration, President Marcos declared martial law in 1972, creating a new atmosphere of stability for investment activity. Investors were assured of continuity in their activities, and trade agreements with Communist, Socialist, and Third World blocs were initiated to diversify trade markets in view of the imminent expiration of the Laurel-Langley Agreement.

In the rural sector, which by then had run out of the frontier lands needed to sustain its traditional life-style and burgeoning population, the demands of growth had to be met by more intensive and efficient agriculture rather than by geographical expansion; fortunately, the rice technologies generated at this time proved equal to the task.

Investor activity during the decade of the seventies was characterized by greater dependence on foreign markets. Local manufacturing expanded to the point where, instead of the 60 percent figure of 1949, only 6 percent of imports were finished mass-market items. Total import figures, however, continued to rise as demand for energy, machinery, and industrialization requirements (and luxury goods for the enclave elite) rose dramatically. The result was a continuous widening of the trade deficit, so that between 1970 and 1975 a $1.3 billion deficit accumulated.

In the meantime, investors began to realize that pure import substitution imposed severe limits on growth since the urban and enclave markets in the Philippines were small and the rural sector was just beginning to become a consumer market. As a result, this investment and trade climate slowly gave rise to a shift from import substitution to "export substitution," in which manufacture was geared for export rather than domestic markets. The export of raw materials was augmented or supplanted by export of semiprocessed goods (made from the same raw materials) or new manufactured items, a trade which grew at rates that

overtook the levels of traditional exports. The garment and electronics industries, for example, consistently registered growth rates well over 40 percent during the 1970s.

The supportive government response to this picture is best summarized in the threefold program of President Marcos already described, that is, the promotion of non-resource-based exports by various incentives and by such schemes as export processing zones and bonded manufacturing warehouses; the ambitious drive for industrialization to provide backward and forward integration of manufactures by inviting more foreign investment and higher debt ceilings; and the search for local and alternative sources of energy to reduce the high cost of Philippine dependence on imported oil.

It may still be too early to evaluate reactions to this government policy on investments. The export orientation has recently induced Maidenform, Timex, Texas Instruments, and other labor-intensive companies to establish production facilities in the Philippines. It is the feeling of several economists that export growth in the Philippines is at a take-off stage similar to that experienced by the "miracle growth" countries a decade ago. The demand for bigger markets has generated keen interest on the part of investors who now view the ASEAN nations as an integrated market community rather than five individual country markets. It is difficult to evaluate the so-called spillover effects of export substitution on the total economy; the only evidence of spillover to date is increasing luxury consumption by the elite directly involved with the export enclave and further importation of equipment and machinery for more sophisticated export production capacity. In spite of the lapse of the Laurel-Langley Agreement, contracts drawn up before that time continued to benefit American investors, with the result that, between 1972 and 1975, $400 million more were repatriated. Through the 1970s, for every dollar invested in the Philippines an average profit of $3.80 was

registered, of which about $2.00 were repatriated to the United States.

Fourth Stage

It would seem that reaction of investors and Philippine society at large to the recent investment climate will eventually give shape to a fourth stage of economic development. President Marcos has made a bold decision to industrialize heavily, and assuming that the Philippines, in spite of greater financial risk and exposure, will survive the severe inflation and recession that face the globe in the early 1980s, the country should eventually be equipped with the forward (pulp and paper, copper smelting, oil refining) and backward (steel, oil, chemical) integration needed by a healthy and more self-reliant economy. A diversified trade and investment base will serve as a better hedge against individual fluctuations in a world of increasing interdependence but greater bilateral risks.

Most significantly, the polarization between the rural sector and the enclave sector will have to be resolved before it reaches crisis proportions. Having reached the limits of the arable frontiers and having arrived at the higher productivity achieved by irrigation and improved technology, the rural sector must now actively integrate into the trade and investment pattern of the commercial enclave. Trade and investment patterns that have drawn resources away from the countryside and into the metropolitan enclaves must give way to more creative alternative paradigms for enterprise and capital formation.[2]

More creative patterns of investment activity in this fourth stage should then emerge, with a much stronger focus on the rural countryside than ever before. Investors must develop a greater sensitivity to national aspirations so that goal congruence can be approximated between these aspirations and their own investment requirements. As

domestic investors increase their capabilities, foreign investors will no longer be required in areas where they have traditionally operated. Foreign investment will be needed only in the much larger or more complex arenas which, paradoxically, may be the very ones that the national polity will want to continue to own. Foreign investors will begin to view the 250 million people in the ASEAN nations as a market, not just a cheap labor pool for "sweat-shops" supplying the demands of Western consumers.

Ideally, government response to this activity will take the shape of refining incentive schemes to provide satisfactory terms for foreign investors in the few areas in which they will still be needed. Hopefully, the government response will provide a climate of stability and trustworthiness within which foreign investors can be assured that initial commitments will remain valid over agreed-upon durations. Out of this new policy climate should emerge new, jointly forged formulas for the involvement of foreign investment capital. Of course, if the government response proves dysfunctional, the resulting disillusionment of foreign investors will lead to withdrawals and recriminations. These will in turn lead to severe economic dislocations, and--in cases such as the Philippines where involvement is extensive--to outright chaos.

The continued success of foreign investment in the future will depend essentially upon the evolution of new formulas for cooperation. Because outright ownership of major enterprises may not be feasible in the future, foreign investors should look to other formulas for adequate control of their investments, such as those now being tested in China. For example, investors could be given control, plus a percentage of output in kind, rather than ownership; they could retain control of the company and the use of capital equipment; or they could enter into a straight contract with

the host country and receive their returns in the form of contract fees rather than dividends. New formulas must also be hammered out in response to the gradually emerging ASEAN reality, so that ASEAN, rather than national, perspectives slowly come to the fore; for example, inter-ASEAN investment may eventually take precedence over Western investment. Finally, new formulas must be found for the direct participation of private enterprise and foreign investment in the task of integrating the enclave and rural sectors, so that benefits of investment growth do not remain bound in enclaves but genuinely flow to the countryside.

Conclusion

Only by developing a more enlightened mutual understanding between foreign investors and their host country can a new formula for mutually satisfactory interaction be arrived at in the difficult future. Sincere efforts at redirection are required of both parties.

On the part of the host country (the Philippines), a growing consensus on the importance, limitations, and role of foreign investment must be achieved. The areas, priorities, and conditions shaping the participation of foreign investments must manifest itself, not only in intention and presidential statements, but also at the operating level of implementing and regulatory agencies. The host country must also develop a reputation for ethical and reliable negotiations and agreements in which the sanctity of the contract, once determined to be just, is kept inviolate.

On the part of the foreign investor, a greater sensitivity to national needs must be manifested and a genuine attempt made to achieve congruence of goals between corporate stockholders and national development planners in the host country. The notorious exploitative terms traditionally foisted upon hosts in the form of dubious

contracts and agreements must become a thing of the past. Previous contract terms can then be understood in the context of a changing environment. New formulas for investment, in terms both satisfactory to investors and equitable to hosts, must constantly be sought.

When both parties come to share a working analysis of old investment patterns and recognize the need for new investment patterns in the future, the apparently impossible task of growth (not just survival) in the turbulent eighties may be achieved after all.

Notes

1. Sixto Roxas, "The Economic and Investment Future of the ASEAN Region," in *ASEAN (Association of Southeast Asian Nations) and a Positive Strategy for Foreign Investment: Report and Papers of a Private Conference Organized by the Pacific Forum*, ed. Lloyd R. Vasey, Case Studies in Public Policy Implementation and Project Management, no. 6 (Honolulu: Pacific Forum, 1978), 51-70.

2. Experiments testing such creative paradigms have already begun. One such experiment is the Bancom Institute of Development Technology, a nonprofit subsidiary of a group of financial companies established to explore human settlements management as a private-enterprise activity. Its first major field site was Licab, a remote municipality of fourteen thousand in Nueva Ecija. There it strove to arrive at new formulas for external intervention in bringing a community to significant growth targets by combining the efficiency of private business with the social objectives of improving the quality of life and linking the isolated community to the national mainstream. Around a theme of profit-for-progress, outside expertise was employed to help the community as a whole work toward its own prosperity. For details, see Victor M. Ordoñez, *Bancom Institute of Development Technology* (Honolulu: East-West Center, East-West Technology and Development Institute, 1978).

Bibliographic Note

Most of the information in this paper derives from governmental sources within the Republic of the Philippines, including the Ministry of Trade (*Statistical Bulletin* of the Bureau of Foreign Trade), the Central Bank (Census Statistical Office and National Economic Development Authority), and President Marcos himself (address before the University of the Philippines Law Alumni Association, Manila, 28 September 1979). See also:

Paglaban, Enrico. "Philippines: Workers in the Export Industry." *Pacific Research* 9, nos. 3, 4 (March-June 1978):1-31.

"Philippines: Troubles Closing In." *Far Eastern Economic Review*, 29 June 1979.

"The Philippines." *Business Week*, 16 June 1980 (special advertising section).

Ordoñez, Victor M. *Bancom Institute of Development Technology*. Case Studies in Public Policy Implementation and Project Management, no. 6. Honolulu: East-West Center, East-West Technology and Development Institute, 1978.

Roxas, Sixto. "The Economic and Investment Future of the ASEAN Region." In *ASEAN (Association of Southeast Asian Nations) and a Positive Strategy for Foreign Investment: Report and Papers of a Private Conference Organized by the Pacific Forum*, edited by Lloyd R. Vasey, 51-70. Honolulu: Pacific Forum, 1978.

Stauffer, Robert. "The Political Economy of a Coup: Transnational Linkages and Philippine Political Response." *Journal of Peace Research* 11 (1974):161-77.

TAMING THE AMERICAN MULTINATIONALS

Frank H. Golay

When civil government under the Philippine Commission replaced the Military Government in 1901, the economy of America's new colony was prostrate after five years of rebellion against Spain and war against the United States. Challenged to get the moribund economy moving, the commission proposed that economic development be sustained by the migration of American capital and enterprise to the Philippines. To induce this migration, the commission urged Congress to provide liberal access by investors to Philippine public lands, minerals, and forest resources; to empower the insular government to extend favorable terms in chartering corporations and granting franchises to investors proposing to build railroads, electric utilities, and communications systems; to authorize the sale of bonds in the United States to provide funds needed to erect an appropriate infrastructure of roads, portworks, and other "public improvements" supporting economic development; to extend the American national banking system to the colony to provide an expanding supply of credit to insular enterprises; and to grant the colony a substantial, nonreciprocal, tariff preference to ensure a lucrative and expanding market for insular exports.[1]

The three years beginning with the bitter fight in early 1899 over ratification of the Treaty of Paris, ceding Spain's sovereignty over the Philippine Islands to the United States, witnessed a prolonged struggle in Congress

over colonial policy. This encounter between "retentionists," Republicans for the most part, and "antiretentionists," predominantly Democrats, saw the former turn back efforts of the latter to establish an American commitment to free the Philippines. The confrontation culminated in passage of the Organic Act of 1902, in which the antiretentionists were able to establish restrictions which drastically limited the migration of American capital and enterprise to the colony.[2]

Ownership of land by corporations was limited to 1,024 hectares (2,500 acres), an area too small to support extensive development of efficient plantation agriculture. Moreover, any corporation or member of a corporation engaged in agriculture was prohibited from participating in any other corporation engaged in agriculture. Mining claims were severely limited in surface area, underground rights were restricted to the space defined by vertical planes through the surface boundaries, and both individuals and corporations were limited to a single claim on a mineral lode or vein. The stringency of constraints in the Organic Act on access to insular mineral resources was confirmed at the end of the vigorous mining boom of the 1930s when it was discovered that all major mines in the islands were working claims established prior to enactment of the law.[3] Development of forestry industries was tightly controlled by term leases and stringent limits on the rate of cutting. As a result, exploitation of forestry resources at the end of the American period was limited and was dominated by small-scale mills supplying local needs.

Congress authorized the sale of $5 million of insular government bonds in the United States to finance "public improvements" and for a decade and a half turned a deaf ear to requests from the Philippine Commission that the limit to such borrowings be increased. As a result, the principal part of social overhead investment in the colony prior to

the inauguration of the autonomous Commonwealth in 1935 was financed out of current revenues of the insular government. Congressional concern to prevent exploitation by American capital and enterprise was reflected in strictures imposed on the insular government in granting franchises for railroad construction and the operation of electric power and other utilities. Awareness of this concern was also reflected in the corporation law enacted by the commission, which reserved ample regulatory powers to the insular government. Congress ignored the banking recommendation in the commission's development "package" and American commercial banks played a minor role in the island economy over the period of American rule.

Although Congress proved hostile to a development strategy based on the migration of American capital and entrepreneurship to the Philippines, it was willing to establish preferential access to the American market for exports from the colony. Initially, the preference was set at 25 percent of United States duties and was nonreciprocal. Mutual free trade between the Philippines and the United States commenced with enactment of the Payne-Aldrich tariff in 1909, and this policy remained the core of colonial development strategy for the duration of the American period.[4]

Congress was willing--antiretentionists and retentionists alike--to establish mutual free trade because internal free trade was embedded in the American Constitution, and the Philippine Islands were territory of the United States. On the other hand, antirententionists vigorously opposed the establishment of powerful incentives to induce the migration of American capital and enterprise because they feared that an economic interest would materialize capable of frustrating the independence they intended to bestow on the Filipinos.

I

Under mutual free trade American investment and enterprise in the colony expanded slowly and economic development proceeded at a modest rate. Mutual trade grew rapidly, however, until virtually two-thirds of the colony's imports were supplied by the United States, and this country provided a market for more than four-fifths of Philippine exports as the end of American rule approached in the 1930s.[5]

Political pressures to free the Philippines accumulated rapidly during the 1920s as the hard core of antiretentionist strength was augmented by American agricultural interests alarmed by the competition of rapidly expanding imports of insular sugar and coconut products. Similarly, organized labor was vocal in urging Congress to halt Filipino emigration to the United States and was willing to free the colony if this step was necessary to achieve that goal.

As support for independence surged in the United States, economists of the executive branch began assembling economic data on the island economy which would be needed as Congress drafted independence legislation providing for economic as well as political disengagement. It is not surprising that this effort was concerned with the role of American capital in the development of the colony as American rule drew to a close. Initial studies of American investment in the late 1920s and during the 1930s resulted in estimates that total United States direct investment increased from $122 million at the end of the 1920s to $136 million in the mid-1930s and jumped to $175 million by the end of the decade (see table 1).

Over the brief period analyzed, American direct investment in export production and processing increased from 37 percent to 60 percent of total American direct investment. Much of the rapid expansion of investment in

TABLE 1

United States Direct Investment in the Philippines
in Late 1920s and 1930s
(U.S. $million)

Sector	Late 1920s	Mid-1930s	Late 1930s
Manufacturing	44.9	45.4	55.5
Export processing industries	36.2	36.9	47.5
General manufacturing	8.7	8.5	8.0
Commerce	38.4	18.0	18.0
Utilities[a]	28.0	37.9[c]	37.9[d]
Mining	nrs	7.4[c]	37.1[e]
Agricultural and other real estate	7.4	19.7	19.3
Miscellaneous	3.3	7.4	4.9
Total	122.0	135.8	172.7
Export sector[b]	43.6	64.0	103.9
Other sectors	78.4	71.8	68.8

Sources: Late 1920s: U.S. Tariff Commission, *U.S.-Philippines Trade Relations*, Report no. 18, 2d ser., 62 (estimates of C. C. Howard, U.S. Trade Commissioner, dated March 9, 1930).

Mid-1930s: U.S. Tariff Commission, *United States-Philippine Trade*, Report no. 118, 2d ser., 191 (estimates of J. Bartlett Richards, U.S. Trade Commissioner, dated June 30, 1935).

Late 1930s: Philippines (Commonwealth), Technical Committee to the President, *American-Philippine Trade Relations* (Washington, D.C.: n.p., 1944), table 87, p. 230.

a. Includes investment in transportation.
b. Includes export-processing industries, mining, and agricultural and other real estate.
c. Not including value of estimated ore reserves.
d. For value of investment in transportation, see *United States-Philippines Trade*.
e. For value of investment, see *American-Philippine Trade Relations*, table 44, p. 121.
nrs = not reported separately.

the export sector was attributable to the American decision to devalue the dollar, which raised the price of gold to $35 an ounce, an increase of 70 percent. Stimulated by this windfall, American investment in insular mining companies increased more than fivefold during the 1930s.

American investment in public utilities, including transportation facilities, accounted for a further 22 percent of American direct investment in the colony in the late 1930s. The concentration of American investment in export production and processing and public utilities at the end of the colonial period was extreme, as these activities accounted for more than four-fifths of all American direct investment.

Although such investment conformed to tradition as it moved into the export sector, development of the colony was modest and the role of American investment limited compared with other outlets for American capital competitive with the Asian colony. For example, United States direct investment of $919 million in Cuba in 1930 was virtually eight times that in the Philippines, although the Philippine population was three times that of Cuba and the land area two-and-a-half times as great.[6]

When Congress drafted independence legislation in the early 1930s, the Philippine economy was tightly integrated with that of the United States by twenty-five years of mutual free trade. The resulting Independence Act reflected the conviction of Congress members generally that meaningful independence for the new state must have an economic as well as a political dimension, and that economic independence required the dismantling of preferential trade. To begin this process quotas were established on duty-free imports from the colony of sugar, coconut oil, cordage, and a few minor commodities to halt further specialization in production of these products based on the protected American market. Subject to these quotas, mutual free trade was

scheduled to continue for the first five years of the autonomous Philippine Commonwealth, to be followed by five years during which Philippine commodities would be subject to gradually increasing export taxes, until in 1946, when inauguration of the independent Philippine Republic was scheduled, each commodity exported to the United States would be paying a tax equal to 25 percent of the United States tariff duty on the commodity. Congress also provided for a joint Philippine-American Commission to plan the postindependence transition during which remaining preferences in mutual trade would be phased out. These plans were interrupted by World War II and the subsequent reinvolvement of the United States in the colony.

Almost without exception, Filipino political leaders tenaciously resisted American determination to dismantle preferential trade. At the same time, they insisted upon another economic dimension of independence--the Filipinization of the colonial-type economy in which alien (Chinese) and foreign participation was prominent. Insistence upon attainment of this goal characterized Filipino participation in the insular legislature throughout the American period and was affirmed by the convention convened in 1934 to write the constitution for the transitional Commonwealth government provided in the Independence Act. The resulting constitution specified that only Filipinos or enterprises at least 60 percent owned by Filipinos could "exploit, develop, and use Philippine natural resources including agricultural land" or "operate public utilities." Subsequently, the Mining Act of 1936 restored the Hispanic "regalian doctrine," which vested the ownership of all mineral resources in the national government and provided for access to mineral resources by lease contracts of specified duration. That year also saw enactment of the Land Act of 1936, which extended the nationality requirement for land ownership in the Philippine Constitution to transfers of privately owned agricultural

land and reiterated the long-standing limit on the amount of land a corporation could own. These new measures left property rights established prior to their enactment undisturbed.[7]

With independence imminent, Congress, confronted by the complex task of tying off loose ends left from American reinvolvement in the Philippines during World War II, enacted two major pieces of economic legislation in 1946. The Philippine Rehabilitation Act provided for war-damage payments in excess of $600 million to assist in the rehabilitation of the island economy, which suffered grievously from the Japanese invasion and destruction attending liberation. The second law, the Bell Trade Act of 1946, established a new schedule for dismantling preferential trade and spread it over the twenty-eight years ending in 1974. The trade measure also included provisions infringing on the sovereignty of the new Republic of the Philippines, including the odious "parity amendment." The latter required the Filipinos to amend their constitution to establish national treatment for Americans and their enterprises in the exploitation of Philippine natural resources and operation of public utilities. Congress also specified that compensation for war damage would be contingent upon implementation by the Filipino society of the "parity" clause of the Bell Trade Act. This was done resentfully and under duress occasioned by the confusion, fears, and uncertainties confronting the new republic at the end of the war.[8]

The first five years of Philippine independence was a period in which the United States participated extensively in rehabilitation of the island economy. Including war damage payments, United States government expenditures under a range of programs totaled some $1.5 billion and sustained an import surplus in excess of $1 billion. The influx of goods and services provided the material requirements of

rapid rehabilitation and also played an essential role in reestablishing internal monetary stability. Moreover, the Bell Trade Act continued mutual free trade, and access to the American market supported steady recovery of traditional Philippine export industries. Investment incentives remained concentrated in the export sector, however, as mutual free trade and the flood of imports precluded substantial manufacturing development based on the internal market. Under these circumstances rehabilitation was essentially a process of reconstructing the prewar colonial-type economy, a process disappointing to Filipinos concerned for the independence and sovereignty of their country and the challenge to escape dependence on preferential access to the United States market.

As the period of rehabilitation drew to a close, official United States expenditures contracted, and management of the Philippine balance of payments became difficult. Among other factors, this reflected the agreement of the Filipino leadership in 1946 to the restoration of the prewar exchange rate of P2 per dollar, which grossly overvalued the peso and maintained a level of demand for imports and other foreign exchange expenditures far in excess of foreign exchange earnings.[9]

To solve this problem, a task that became imperative as foreign exchange reserves drained away, the Philippine government installed import and exchange controls at the end of 1949 and applied them with such intensity in 1950 that imports were limited to three-fifths of their volume a year earlier.[10] It was not surprising, therefore, that peso prices of imported commodities rose sharply as importers disposed of curtailed supplies at prices the Philippine market would bear. With the installation of stringent import and exchange controls, the Philippines embarked upon a prolonged process of industrialization through import substitution. Despite continuous controversy and widespread

concern for the corruption and economic distortions attending discretionary controls over economic activities, this strategy has been maintained to the present, although techniques for its implementation have undergone extensive adaptation.

Once management of the balance of payments was assured, the exchange control authorities quickly discovered that by requiring Philippine nationality as a qualification for foreign exchange allocation they could Filipinize import trade and the wholesaling of imports. With this experience behind them it did not take the Filipino leaders long to recognize that protection established by higher peso prices of restricted imports and the windfall in foreign exchange allocated to import raw and semifinished materials could be used to maintain powerful incentives to manufacture in the Philippines commodities denied access to the Philippine market by import controls. The widespread enthusiasm generated by the initial industrialization based upon import substitution moderated concern for Filipinization, and foreign and alien enterprises sharing in the manufacturing incentives encountered relatively little overt discrimination.

Over the twelve years that the prewar peso exchange rate was maintained by controls and the import-substitution strategy was in full flower, the value added by manufacturing as a share of Philippine national income virtually doubled to 18 percent. This was also a period in which United States direct investment increased rapidly from $149 million in 1950 to $415 million at the end of 1961. As could be expected, the fastest-growing sector of United States direct investment was manufacturing, including petroleum refining, which increased to one-half of total direct investment as investment in this sector expanded ninefold from the level of $23 million recorded in 1950.[11]

By the late 1950s, it became evident that stresses and distortions in the system of exchange and import controls and corruption in their implementation were undermining the import-substitution strategy, and early in 1962 the peso was devalued to P3.90 per dollar, roughly half of the previous official rate. The effect of this decision was to redirect incentives to invest from the manufacturing sector to the export sector, and successive devaluations in 1970 and 1971, and steady deterioration in the peso's value thereafter, have maintained this priority. At the same time, growth in manufacturing for the domestic market has been sustained by conventional protection implemented by tariff duties in conjunction with subsidized credit and tax concessions. As a result, the contribution of export production to national income increased slowly, while the share of income generated by manufacturing remained relatively stable as economic growth of the Philippine economy averaged in excess of 5 percent annually over the 1960s and 1970s.

The preoccupation of Philippine policymakers with economic nationalism resumed with the installation of stringent import and exchange controls and has continued to the present. Laws extending nationality restrictions on access to shipping activities, domestic air transport, oil exploration and production, cooperatives, and the range of financial institutions, including commercial banks, accumulated steadily during the autonomous Commonwealth and following independence. The success with which exchange controls were used to Filipinize the import trade could not be duplicated in retail trade or trade in rice and corn in which Chinese participation was prominent. Frustrated by the lack of progress in these areas, the Philippine Congress formally Filipinized these activities in the 1950s by legislation limiting them to wholly owned Filipino firms.[12]

Goals of economic nationalism were also pursued through administrative discretion vested in major regulatory bodies.

For example, the Monetary Board implemented regulations which raised the required ratio of Filipino participation in new commercial banks to levels well above the 60 percent prescribed in the Banking Act of 1948. In 1959 the board announced that establishment of new branches of existing commercial banks would require prior approval of the board, and it used this action to delay for years proposals by the two American banks in the Philippines to open branches in the burgeoning Makati financial district in suburban Manila.[13]

Similarly, the Public Service Commission sat on, and frequently rejected, applications for rate increases submitted by the Manila Electric Company and the Philippine Long Distance Telephone Company so long as they were American-owned. This behavior adversely affected the utility services provided and generated customer complaints and adverse publicity which undoubtedly contributed to the decision of the American owners to sell out to Filipinos. In the midst of the OPEC embargo in the fall of 1973, the Petroleum Commission was created to regulate petroleum refining and marketing. In carrying out this mandate it maintained pressure on foreign firms that dominated these activities, and recent years have seen transfers of major American-owned units to Filipino ownership.[14]

Philippine courts also helped to erect the policy structure of economic nationalism. Every law establishing nationality restrictions on participation in economic activities enacted since the proclamation of Philippine independence has been upheld by the courts. The courts have not been laggard in providing initiative on their own. For example, the Supreme Court applied in the Krivenko decision (1947) the constitutional requirement that "exploitation" of natural resources be limited to Filipinos, and decreed that non-Filipinos could not establish legal title to land. The court concluded that all land in private ownership was

"agricultural land," on the ground that it had at one time been in the public domain and was initially alienated for agricultural purposes (i.e., "exploitation") which the constitution limits to Filipinos and to enterprises at least 60 percent Filipino-owned. As the end of the transition to nonpreferential trade approached, the Supreme Court established in the Quasha case the principle that property rights established under the "parity amendment" to the constitution would terminate with the end of preferential trade. This decision forced the divestment of major American interests in Philippine natural-resource industries in recent years.[15]

Last but not least, in drafting the Investment Incentives Act of 1967, the Philippine Congress sharply curtailed access by foreigners and aliens to manufacturing activities, which remained relatively open to non-Filipinos during the early period of industrialization via import substitution. In doing so, Congress created a Board of Investments to regulate investment in accordance with an annual "investment priorities plan." A variety of incentives were provided to encourage new enterprises and the law is permeated with complex provisions, the interpretation of which is left to the Board of Investments, which ensures that Filipinos will be favored in access to investment incentives.[16]

The invitation to the non-Filipino investor proves less than wholehearted, however, as a non-Filipino firm qualifying for incentives under the law as a "preferred" or "pioneer" activity must begin promptly to transform itself into a Filipino enterprise. Such enterprises are obligated to begin selling out to Filipinos not later than twenty years following approval by the Board of Investments of its proposal to operate in the Philippines, and the proportion of Filipino ownership must reach at least 60 percent within thirty years.

Given this brief survey of Philippine foreign-investment policy during the American period and since independence, what is the stake of American capital and enterprise in the Philippines at present, and how has this economic presence changed in recent years? The surge of United States direct investment stimulated by the incentives in the import-substitution strategy was drastically slowed by devaluation of the peso in 1962 and the growing militancy of Philippine economic nationalism. Subsequently, articulation of Filipino resentment of the "parity amendment" became shrill as the end of preferential trade approached. The resulting uncertainty concerning the future of property rights established by Americans under "parity" inhibited the movement of American capital and enterprise to the Philippines and encouraged the repatriation of American direct investment in parity sectors.

Official American recognition of the futility of "parity" as a device with which to maintain national treatment for American enterprises was acknowledged by the Johnson administration in the mid-1960s. On different occasions President Johnson, Assistant Secretary of State William Bundy, and Ambassador G. Mennan Williams assured Filipinos that the United States would not seek renewal of parity when preferential trade ceased in 1974.[17] Shortly thereafter, enactment of the Investment Incentives Act imposed conditions which could only curtail the interest of potential American investors in manufacturing for the local market, the sector which sustained rapid growth of American direct investment in the Philippines following 1950.

The impact of these factors is reflected in the rate of growth in United States direct investment in the 1960s and the interruption of growth as the trade transition drew to a close. During the decade of the 1950s, United States direct investment in the Philippines increased from $149 million to $414 million, and the ratio of American direct investment in

TABLE 2

United States Direct Investment,
Global and in the Philippines, 1950-1977
(U.S. $million, end of year)

	Total $ billion	Index 1960=100	Philippines ($ million)	Index 1960=100	Share of Philippines (percent)
1950	11.8	36	149	36	1.26
1957	24.4	77	183	44	.77
1960	32.8	100	414	100	1.26
1963	40.7	124	415	100	1.02
1966	54.7	167	579	140	1.06
1969	71.0	216	742	179	1.04
1972	94.3	288	608	147	.64
1975	133.2	406	738	178	.55
1976	136.4	416	831	201	.61
1977	149.8	457	913	221	.61

Source: U.S. Department of Commerce, *Survey of Current Business*, various issues presenting annual survey of U.S. direct investment.

the Philippines to global direct investment of the United States at the end of 1960 (1.26 percent) was unchanged from that of a decade earlier (see table 2). The rate of growth in United States direct investment slowed in the 1960s, but such investment continued to grow until it peaked at $742 million in 1969. Over the following six years, through 1975, there was no growth in United States direct investment in the Philippines and the Philippine share of American global direct investment sagged to .55 percent, less than half the Philippine share fifteen years earlier. Thereafter, United States direct investment exceeded the level reached in 1969; at the end of 1977 it amounted to

$913 million, six-tenths of one percent of American global direct investment.

During the twenty-eight years ending in 1977, the rate of growth in United States direct investment drastically slowed. Over the decade of the 1950s, American direct investment grew by 177 percent. In the decade of the 1960s, the rate of increase fell to 69 percent and during the first eight years of the 1970s the increase was only 30 percent (see table 3). The period analyzed, moreover, was one of stability followed by increasing inflation, particularly in the 1970s. When United States direct investment is deflated for price changes, the decline in the rate of growth becomes more drastic. Using the increase in the decade of the 1950s as the base, the increase in United States direct investment in the 1960s fell to 71 percent of the previous decade, and the increase over the eight years ending in 1977 was only 14 percent of the rate of investment in the 1950s.

II

Analysis of the composition and recent changes in United States direct investment in the Philippines is facilitated by a detailed survey of the 169 largest American direct-investment enterprises in the Philippines in 1970, compiled from accounting statements these corporations are required to file with the Philippine Securities and Exchange Commission. This survey, which is summarized in appendix A, includes information on the United States ownership share and net worth of the enterprises, which permits the value of American-owned equity to be established for each firm.

The value of the United States ownership share in the 169 firms surveyed in 1970 totaled P2,667 million (see table 4). When converted at the peso/dollar exchange rate for 1970, American investment in these firms amounted to $684 million. The aggregate value of American-owned equity in these firms was equal to 96 percent of total American

TABLE 3

United States Direct Investment in the Philippines, 1950-1977
(U.S. $million, end of year)

	Current Value			Value in constant 1972 prices	
	Total	Increase in value over period	Rate of increase in value	Increase in value over period[a]	Index of increase in value over period (1950-60=100)
1950	149				
1960	414				
(1950-1960)		265	177%	669	100
1970	701				
(1960-1970)		287	69%	474	71
1977	913				
(1970-1977)		212	30%	91	14

Source: U.S. Department of Commerce, *Survey of Current Business*, various issues presenting annual survey of U.S. direct investment.

a. Sum of annual increases in U.S. direct investment, in current dollars, deflated by implicit price index (1972=100) for Philippine gross domestic capital-formation. See R.P., National Economic and Development Authority (NEDA), *Philippine Statistical Yearbook, 1978* (Manila: NEDA, 1979), 154-59, table 4.8.

TABLE 4

Distribution of United States Ownership of Net Worth by Industrial Category for the 169 Largest United States Direct-Investment Enterprises in the Philippines in 1970

	P million	Percent of total
Natural resource exploitation (12)	475.0	17.7
Export processors (20)	184.8	6.9
Manufacturing for domestic market (73)	1057.7	39.7
Commerce (44)	571.1	21.4
Service enterprises (14)	137.5	5.2
Public utilities (3)	4.9	.2
Insurance and banking (4)	235.5	8.8
Total (169)[a]	2,666.5	99.9[b]

Source: See appendix A.

a. Number of firms totals 169 because U.S.-owned net worth in Caltex was divided equally between "Manufacturing for the domestic market" and "Commerce."

b. Percentages do not total 100.0 due to rounding.

direct investment in the Philippines as reported by the United States Department of Commerce for 1970. The remainder of American direct investment in 1970 was accounted for by direct-investment firms too small to be included in the survey.[18]

Of the 169 United States direct-investment firms surveyed, those engaged in manufacturing for the domestic market accounted for two-fifths of aggregate American ownership of the firms surveyed. Enterprises engaged in

commerce (export/import and internal distribution) accounted for a further 21 percent of the value of American ownership of the 169 firms. The relative importance of United States direct investment in manufacturing for the Philippine market in 1970 contrasts sharply with American participation in this sector in the late colonial period when the value of United States direct investment in manufacturing ranged from one-sixteenth to one-twentieth of total direct investment.

Natural resource industries accounted for P475 million of United States ownership in the firms covered by the 1970 survey, or 18 percent of total United States ownership, and the American share of firms engaged in processing exports added another 7 percent. American ownership of direct-investment firms operating public utilities in 1970 amounted to P5 million, or one-fifth of one percent of all United States investment in the firms surveyed. This small share is surprising in view of the national treatment extended to American capital and enterprise in this sector by the "parity amendment" and the attractiveness of this sector to American investors in the late colonial period, when investment in utilities accounted for one-quarter to one-fifth of all United States direct investment. The remainder of the United States ownership share of the 169 firms surveyed was employed in service enterprises and insurance and banking, which accounted for P373 million, or 14 percent of total American ownership.

United States direct investment in 1970 was heavily concentrated in a few firms. The American ownership share of the five firms with the largest American-owned net worth totaled P952 million or 38 percent of all United States direct investment in that year; the ten largest firms accounted for P1,318 million, or 53 percent, and the firms with the twenty largest American-ownership shares accounted for P1,713 million, more than two-thirds of all United States direct investment in 1970 (see table 5). Equally

distinctive is the high proportion of American ownership in United States direct-investment enterprises in the Philippines in 1970. The forty largest firms included twenty-three that were wholly American-owned plus five others with American ownership ranging from 90 to 99 percent. Only one firm reported less than 50 percent American ownership (see appendix B).

TABLE 5

Concentration in American Ownership of United States Direct-Investment Enterprises in the Philippines in 1970

Number of enterprises	U.S. ownership of net worth	
	P million	Percent of total for nonfinancial enterprises
Five largest	952	38
Ten largest	1,318	53
Twenty largest	1,713	69
Forty largest	2,057	82
One hundred and sixty-four largest	2,431	97
All nonfinancial firms	2,498	100
Four financial enterprises	236	
Total, all direct-investment enterprises	2,734[a]	

Source: See appendix B.

a. Total United States direct investment in the Philippines in 1970, reported by the U.S. Department of Commerce, converted to pesos at the rate of P3.90 per dollar.

Similarly, American ownership of United States direct-investment firms was highly concentrated in a few activities. In 1970 the three United States direct-investment enterprises in petroleum refining and the three largest United States direct-investment enterprises in petroleum distribution included American ownership shares totaling P631 million, or 25 percent of all nonfinancial United States direct investment in the enterprises surveyed (see appendix A). The three American firms in mining included American ownership totaling P397 million, or 16 percent of United States direct investment in the firms surveyed. Three American enterprises engaged in the manufacture of automotive tires accounted for a further 6 percent of United States direct investment in 1970.

The gradual intensification of the pressures of Philippine nationalism on Americans and their enterprises induced steady disinvestment by Americans following 1960, a process that peaked sharply in 1973, the final year of the Laurel-Langley transition to nonpreferential trade. Administrative discretion vested in the Philippine Public Service Commission was used to deny applications for rate increases from American-owned utility enterprises, and 1967 saw the transfer to Filipino ownership of the Philippine Long Distance Telephone Company, the last American-owned utility enterprise of any size. Similarly, the series of court decisions culminating in the decision that property rights obtained under the "parity" clause were not vested but would expire in mid-1974 initiated an exodus of capital from enterprises exploiting natural resources (see table 6). In some cases, for example, Atlas Consolidated, Lepanto Mining, and Philrock, sufficient equity was transferred to Filipinos to comply with the national requirement of the Philippine Constitution. In others, for example, Insular Lumber Company, the American owners decided to take their capital and go home.

TABLE 6

Disinvestment by United States Nonfinancial Direct-Investment Firms in the Philippines, 1962-1972

	$ million	P million
Manila Electric (1962). Sale of U.S. equity share of 100% to Filipinos.	46.9	
Atlas Consolidated (1966). Announced intention to increase Filipino ownership share between 1966 and end of 1970. Filipino ownership share increased from 9% to 41%.	55.0	
Lepanto Mining (1967). Sale of U.S. equity equivalent to 40%, increasing Filipino equity to 65%.	6.0	
Philippine Long Distance Telephone Co. (1967). Sale of U.S. equity equivalent to 28%. Filipine ownership share increased to 60% plus.	14.8	
Luzon Stevedoring (1972). Sale of 86% of U.S. equity.		96.0[a]
Philrock (1968). Sale of 60% of U.S. equity. Further sale in 1970 of additional 10% of U.S. equity.	7.0	
Philippine Airlines (1968). Equity share of 20% held by Pan Am sold to Filipinos.	4.0	
Manila Trading Co. (1968). Sale of U.S. equity share of 100% to Filipinos.	4.0	
Atlantic, Gulf & Pacific (1970). Sale of U.S. equity share of 60% to Filipinos. Commitment to transfer additional U.S. equity share of 37%.	3.0[a]	27.2[a]
Esso Standard Fertilizer (1970). Sale of U.S. equity share to Filipinos. Ratio of U.S. equity transferred not indicated.		209.3[a]
Maria Christina Chemicals (1970). Sale of U.S. equity share of 50% to Filipinos.	.9	

	$ million	P million
Luzon Brokerage (1970). Sale of U.S. equity to Filipinos.	.6	
Norton and Harrison (1968). Sale of U.S.-owned equity share of 100% to Filipinos.	.5	
Philippine Oil Development Co. (1970). Sale of U.S. equity share of 25% to Filipinos. Filipino ownership share increased to 61%.	.6	
Insular Lumber Co. (1971). Sale of U.S. share of equity 97% to Filipinos.		13.8[a]
A. Soriano y Cia. (1972). Announcement that 60% of equity would be sold to Filipinos, of which 40% to 45% would be offered to Filipino employees in the Soriano group of companies.		55.0[b]
Totals	143.3	401.3
Total in U.S. dollar equivalent		$246.2[c]

Source: American Chamber of Commerce (Manila), *Memorandum Listing Actual Past U.S. Disinvestments in the Philippines*, 18 December, 1970.

a. L. S. Coates, "American Disinvestment in the Philippines, January 1970-September 1972, 22 December 1972," research paper prepared for Asian Studies 501A, fall term, 1972, Cornell University.

b. Sixty percent of equity as of 1970. A. Soriano Y Cia was entirely U.S.-owned in 1970.

c. Philippine pesos converted to U.S. dollars at P3.90 per dollar.

Divestments unrelated to "parity" also occurred. The American owners of Esso Standard Fertilizer, Manila Trading Company, Atlantic, Gulf and Pacific Company, and Luzon Brokerage Company decided to sell out to Filipinos. Over the eleven years ending with 1972, transfers of American-owned equity to Filipinos totaled not less than $246 million.

The magnitude of divestment of American-owned equity since 1960 also reflects the policy of the Philippine government to facilitate the transfer of foreign-owned firms to Filipinos. We can assume that Filipino purchasers acquired profitable enterprises, and, so long as their government stood ready to convert the peso earnings of such enterprises to the dollars needed to pay for the equity acquired, their acquisition by Filipinos was relatively painless.

In 1973 the rate of disinvestment jumped sharply when transfers equivalent to $80 million were announced in the press (see table 7). Because of exchange-rate changes over the period covered, as well as internal inflation in the Philippines and the lag in time over which the accounting value of business assets is adjusted to reflect increases in replacement cost of plant and equipment and the value of inventories, attempts to value disinvestment taking place over a span of years in dollars of constant value can only be impressionistic. It seems clear, however, that in current prices some $327 million of United States direct investment was divested over the thirteen years following 1960.

Also of interest is the impact of this process of divestment upon the relative importance of American participation in various industries. The sale of 60 percent of the equity in Benguet Consolidated in conjunction with previously existing Filipino-owned equity in this major gold producer eliminated United States direct investment in gold

TABLE 7

Disinvestment by United States Nonfinancial Direct-Investment Firms in the Philippines, 1973-1974

	P million
Benguet Consolidated (*Manila Daily Bulletin*, 11/23/73). Announcement of sale of U.S. equity equivalent to 60% of total equity for P202.5 million. Hereafter the *Manila Daily Bulletin* will be listed as *Bulletin*.	202.5
Esso Philippines and Bataan Refining (*Bulletin*, 12/22/73). Announcement of sale of 100% of Esso Philippines and Esso's 53% ownership of Bataan Refining to Philippine government for $19.5 million.	130.7
Atlas Consolidated (*Bulletin*, 10/27/73). Announcement that Filipino onwership had reached 61%.	52.2[a]
Theo H. Davis (*Business Day*, 10/1/73). Announcement of sale of U.S. interest to Jardine-Matheson, a Hong Kong firm.	32.9
Filoil Refining (*Bulletin*, 8/7/73). Announcement of sale of Gulf Oil equity to Philippine government.	28.4[b]
Marcopper (*Bulletin*, 10/27/73). Announcement of plans to complete transfer of remaining U.S. equity to Filipinos, increasing Filipino ownership share to 60%.	47.5[b]
Bislig Bay Lumber Co. (*Business Day*, 10/31/73). Absorbed into Paper Industry Corporation of the Philippines (PCIOP). It is assumed that this firm will comply with the constitutional requirement of 60% Filipino ownership.	10.2[c]
Legaspi Oil (*Bulletin*, 11/13/73). Announcement that Ayala interest would acquire U.S.-owned equity equal to 60% of total.	9.8
Manila Cordage (*Bulletin*, 11/26/73). Announcement of sale of U.S. equity to Filipinos.	9.2
Rheem of the Philippines (*Business Day*, 11/7/73). Announcement that A. Soriano Corp. had purchased the American-owned equity of Rheem International.	4.3[d]

	P million
Engineering Equipment, Inc. (*Business Day*, 12/13/73). Public offering of shares to Filipinos.	3.9
Warner Barnes (*Bulletin*, 8/22/73). Enterprise is referred to as "now a Filipino-owned firm."	2.8
Paracale Gumaus Mining Co. (*Bulletin*, 10/26/73). Inactive U.S.-owned mining company sold to Philippine consortium.	2.8
Mahogany Products (Phils.), Inc. (*Bulletin*, 2/19/74). Reports of sale in 1973 to a Filipino.	2.1
Total	P539.3

a. As of 1970, the U.S. ownership share was 54 percent and Filipino share 41 percent. It is assumed that the increase in the Filipino ownership share to 61 percent resulted from the transfer of equity from U.S. to Filipino ownership. Estimated equity transferred is 20 percent of equity as of 1970.

b. Value of U.S. ownership share in 1970.

c. As of 1970, the U.S. ownership share was 56 percent. It is assumed that the Filipino ownership share was 44 percent in 1970 and that the increase in the Filipino ownership share to 60 percent resulted from the transfer of 16 percent of equity from the U.S. ownership share to Filipinos.

d. Amount indicated is 60 percent of equity in 1970.

mining. With the sale of American-owned net worth in Marcopper and the reduction of American ownership in Atlas Consolidated to 40 percent, the latter is the only significant United States direct investment left in Philippine mining.

Although data available to the author are not complete, it is clear that disinvestment of United States direct investment in forestry industries has been substantial. American direct-investment firms remaining in the manufacture of lumber and plywood are either buying their

logs from Filipino enterprises or have reduced the United States equity share as necessary to comply with the nationality requirement of the Philippine Constitution.

Still another interesting divestment is that of Theo H. Davies Company, which wiped out the last significant United States direct investments in the sugar industry, as this firm was the holding company and manager for Hawaiian-Philippines, San Carlos, and Bogo-Medellen, the only remaining United States direct-investment sugar mills.

One crucial question remains to be considered. What is the relative importance of American direct investment in the Philippine economy? Fortunately for this study, the Philippine National Economic and Development Authority (NEDA) publishes a compilation of historical social accounts for the Philippines, valued both in current and 1972 prices. These data permit a relatively reliable estimate of the ratio of total American direct investment to the value of the capital stock of the Philippines at the end of 1977. Using the assumption that the ratio of capital to output has remained stable over time, and valuing incremental capital and output in constant 1972 prices, results in the conclusion that American direct investment was equal to 2.6 percent of the capital stock of the Philippines at the end of 1977 (see table 8). It would be farfetched to conclude from this evidence that American capital and enterprise dominated the Philippine economy as the decade of the 1970s drew to a close.[19]

Other data lend credence to the conclusion that American capital and enterprise have played a steadily contracting role in the Philippine economy over the past two decades. For example, at the end of 1977 the value of American direct investment, converted to pesos at the average exchange rate for 1977, was equivalent to 8.1 percent of the assets of the one thousand largest Philippine corporations.[20] If the value of the assets of

TABLE 8

Estimate of Philippine Capital Stock in 1977 and the Ratio of United States Direct Investment in 1977 to Philippine Capital Stock
(P billion, constant 1972 prices)

National income, 1977	63.0
National income, 1968	38.6
Increase in national income, 1968-77	24.4
Net domestic capital formation, 1968-77[a]	88.8
Average capital/output ratio, 1968-77	3.64
Estimated Philippine capital stock, 1977[b]	229.3
U.S. direct investment, 1977[c]	6.059
Ratio of U.S direct investment to Philippine capital stock, 1977	2.6%

Source: R.P., NEDA, *Philippine Statistical Yearbook, 1978*, 162-63, table 4.10 (Net national product or national income and capital consumption allowance); and 152-53, table 4.7 (Gross domestic capital formation).

a. Sum of annual, gross, domestic capital-formation, 1968-1977, less sum of annual capital-consumption allowances, 1968-1977.

b. Capital stock (1977) = National income (1977) multiplied by average capital-output ratio (1968-1977).

c. U.S. direct investment, 1977, converted to pesos at average dollar exchange-rate used in valuing Philippine trade in 1972. R.P., Bureau of Census and Statistics, *Foreign Trade Statistics of the Philippines, 1972* (Manila: Bureau of Census and Statistics, 1973), X.

TABLE 9

Distribution of Commercial Bank Credit in the Philippines by Nationality of Borrower

	Credits granted 1/1/1960 to 9/30/1974		Loans outstanding (percent of total)	
	P billion	percent of total	12/31/1960	12/31/1979
Filipino	220.5	81.6	74.7	92.8
American	19.5	7.2	11.0	4.3
Other	30.2	11.2	24.3	2.9

Source: *Statistical Bulletin, 1977* (Manila: Central Bank of the Philippines, 1978), 55, table 19, and 65, table 24; *Statistical Bulletin, 1978* (Manila: Central Bank of the Philippines, 1979), 65, table 24.

the remaining Philippine corporations, plus those of proprietorships, partnerships, and farm enterprises, were taken into account, it is unlikely that the ratio of the value of American direct investment to the value of all assets of nongovernmental enterprises at the end of 1977 was as much as 4 percent.

Another measure of the change in the relative importance of the role played by American direct investment following 1960 is the change in the share of credit extended and loans outstanding going to Americans and their enterprises. Over the period beginning with 1960 and ending September 30, 1974, credits granted by Philippine commercial banks totaled P270 billion, of which P220.5 billion was extended to Filipinos and P19.5 billion, or 7.2 percent, went to Americans and their enterprises (see table 9). This measure must be used with caution, however, as a reliable measure of the use of available credit must include a time

factor proportionate to the time the credit was available to the borrower as well as the amount of the credit extended. For example, one firm may borrow P1,000 for thirty days and renew that loan each month for twelve months, while another firm may borrow P1,000 for twelve months. Credit extended to the first borrower would total P12,000, while that to the second borrower would be listed as P1,000, although each borrower had the use of P1,000 of credit for twelve months. That access of Americans and their enterprises to Philippine commercial bank credit is overstated by data on total credit granted is confirmed by data on commercial bank credit outstanding. At the end of 1960, credits outstanding to Americans and their enterprises totaled P119.7, or 11.0 percent of credits outstanding. At the end of 1977, the American share was down to 4.3 percent (see table 9).

The opportunities to acquire land in the Philippines never excited American interest, and agricultural land owned by Americans at the end of 1938 totaled 171,330 hectares, or 2 percent of all land in private hands. As the transition to nonpreferential trade was drawing to a close in the early 1970s, the United States Embassy reported that Americans and their enterprises owned 17,300 hectares of land. American ownership of land amounted, therefore, to one-fifth of one percent of the area in farms, totaling 8,494,000 hectares.[21]

When confronted with these data, Filipinos frequently dismiss them as irrelevant in assessing the relative importance of American capital and enterprise in the agricultural sector, citing arrangements made by Philippine Packing Company and Dole Philippines, Inc., to grow commercial crops on land leased from the government. The lease of the Philippine Packing Company (8,195 hectares of public agricultural land) was renewed for twenty-five years by the National Development Company in 1963. In the same year the National Development Company entered into an agreement with Dole Philippines, Inc., in which the National

Development Company agreed to acquire land to be made available to Dole on a twenty-five-year lease to grow pineapples and other agricultural crops. As of 1964 the lands leased to Dole under the agreement totaled 3,529 hectares. The 11,724 hectares of land leased to American direct-investment enterprises was equal to slightly more than one-third of one percent of the area harvested to Philippine commercial crops in 1976. Land owned or leased by Americans and their enterprises in the 1970s totaled some 29,000 hectares, or one-third of one percent of all Philippine agricultural lands in private hands.[22]

American ownership of Philippine land acquired prior to enactment of the Bell Trade Act in 1946 will contract steadily in the future, as title to these lands can be transferred only to direct heirs of their American owners, to Filipinos, or to enterprises with not less than 60 percent Filipino ownership.

In 1974 the Philippine Supreme Court, in the Quasha case, scheduled the termination of titles to land acquired by American corporations after the proclamation of Philippine independence in 1946. In response to this situation, the Marcos government initially announced that a government corporation would be created to take title to lands acquired by Americans following 1946, some seven thousand hectares, under escheat proceedings decreed by the government.[23]

Meanwhile, martial law was declared and the Marcos government--aware of the accelerating exodus of American direct investment--proved to be uninterested in using the Quasha decision to hasten that exodus. On May 27, 1974, a presidential proclamation was issued declaring that parity rights acquired by Americans would be resolved upon termination of the transition to nonpreferential trade and that no action would be taken meanwhile to "alter the present situation." A day later, Presidential Decree 471

was issued, permitting American corporations to continue to occupy land under a lease limited to twenty-five years, renewable for a second twenty-five years.[24]

Marcos's proclamation and decree were followed by a series of land-divestment proposals by American corporations which would allow them to continue to use the land they occupied. Although the various proposals differed in detail, they all involved the transfer of title to American-owned land to a Filipino realty company, a Filipino charitable institution, or the pension fund of the Filipino employees of the American corporation, in conjunction with a lease-back arrangement permitting the corporation to use the land, subject to the lease duration permitted by Presidential Decree 471.

Finally, Filipinos believe that American direct investment is a source of a large and growing drain on Philippine foreign-exchange earnings. During the seventeen years ending with 1976, global remittances of direct-investment income from the Philippines increased from an average of $45 million in 1960-62 to an average of $74 million in 1974-76, an increase of two-thirds (see table 10). Over the periods compared, average remittances of direct-investment income fell from 8.3 percent of export earnings in 1960-62 to 3.0 percent in 1974-76. Other investment income remitted, primarily interest paid on loans, increased 45-fold, from an average of $5 million to $227 million annually over the periods compared. At the same time, investment income received by the Philippines from abroad increased 22-fold, from an average of $7 million to $156 million annually. By 1974-76, investment income received by the Philippines from abroad was more than double the global direct-investment income remitted from the Philippines. When account is taken of the decrease in the value of the dollar since 1960, it is clear that the real

value of global remittances of direct-investment income has declined over this period.

TABLE 10

Investment Income Account in the Philippines
Balance of Payments, 1960-1976
(annual average, U.S. $million)

	Investment Income Remitted			Investment income received	Net remittance of investment income
	Direct investment	Other	Total		
1960-62	45	5	50	7	43
1967-69	60	36	96	9	87
1974-76	74	227	301	156	145

Source: *Philippine Statistical Yearbook, 1978*, 490-91, table 12.1.

III

Substantial numbers of educated and sophisticated Filipinos of various persuasions choose to believe that their economy is dominated by American-owned enterprises and that they live in thralldom to American direct-investment enterprises--the so-called multinational corporations. To do so, these Filipinos reject a broad spectrum of objective evidence to the contrary, major elements of which are summarized above.

Explanations of this pattern of Filipino behavior vary. We can readily understand why Filipino businessmen cling to this belief, because they have been the principal beneficiaries of policies of economic nationalism which restricted the competition of foreign- and alien-owned

enterprises. Moreover, to the extent that non-Filipino entrepreneurs respond to the pressures of Philippine economic nationalism by deciding to disinvest, Filipino businessmen will continue to acquire profitable enterprises at favorable prices.

Other Filipinos--many of whom are found in the bureaucracy--march to the militant rhetoric of the "Group of 77," projecting the image of a world polarized into a poor South exploited by an affluent North. Taking this position offers the prospect of material benefits so long as the South remains militant and united. To do so also promises to improve the credibility of Filipino nationalism heretofore suspect in the Third World.

Then there are Filipinos who are disturbed by the disappearance of the open political system they took for granted and the mounting evidence of the durability of the authoritarian structure which replaced it. Frustrated by their inability to rectify the situation in which they find themselves, many of these Filipinos succumb to anthropomorphic escapism which assuages their consciences by placing the blame for their condition on the shoulders of others.

Appendix A

United States-Owned Net Worth by Major Categories for the 169 Largest United States Direct-Investment Enterprises in the Philippines in 1970 (Firms listed in parentheses in order of value of U.S.-owned net worth)

	Number of firms	U.S. owned net worth (P million)
Natural resource exploitation		
Mining (Atlas Consolidated, Marcopper, Benguet Consolidated)	3	397.0
Logging, lumber, plywood, veneer (Bislig Bay, Zamboanga Wood Prods., Weyerhaeuser, Insular Lumber, Phil.-American Timber,* Mahogany Prods., Heald Lumber,* Johnston Lumber,* Findlay-Millar)	9	78.0
	12	475.0
Export processors		
Fruit growers and processors (Phil. Packing, Dole, Standard Fruit)	3	83.6
Sugar mills (Hawaiian-Phil., San Carlos, Bogo Medellin)	3	45.9
Coconut oil mills (Legaspi Oil, San Pablo)	2	18.7
Coconut products (Franklin Baker, Matalin)	2	9.1
Cordage (Manila Cordage)	1	9.2

	Number of firms	U.S. owned net worth (P million)
Exporters and consigners of embroideries, gloves, handicrafts, etc. (Gelmart, Novelty, Orion, Royal Undergarment, Phil. Handicrafts, Judy Phils.,* Phil. Gloves,* Supreme Baby Wear,* South Seas Trading*)	9	18.3
	20	184.8
Manufacturing for domestic market		
Petroleum refining (Bataan Refining, Caltex,[a] Filoil)	3	295.2
Automotive tires (Goodrich, Firestone, Goodyear)	3	147.2
Chemicals, paints, photographic materials, compressed gases, etc. (Union Carbide, Borden, Kodak, Fuller Paint, National Lead, S.C. Johnson, Phil. Acetylene, Cyanamid, Amfil,* Columbian Carbon, Sherwin-Williams,* Phil. Chemical Laboratory,* Phil. Rubber Project*)	13	85.0
Pharmaceutical and infants' nutritional products (Pfizer; Mead Johnson; Johnson & Johnson; Winthrop-Stearns; Warner-Chilcott; Richardson-Merrell; Abbott; Wyeth-Suaco; Squibb; Parke Davis; Merck, Sharp & Dohme; Upjohn; Eli Lilly; Estraco; Rachelle;* Robins;* Smith, Kline & French;* Bristol;* Rexall*)	19	77.4
Soft drinks and syrups (Pepsi Cola Bottling, Pepsi Cola F.E. Trade Dev., Coca Cola Export, SPT Extract*)	4	70.9
Toiletries, detergents, etc. (Proctor and Gamble,[b] Colgate-Palmolive)	2	67.0
Metals fabrication and engineering (Honiron Phils., Reynolds Phils., Rheem, Chicago Bridge, American Machinery and Parts*)	5	66.5

	Number of firms	U.S. owned net worth (P million)
Machinery and transport equipment (International Harvester-Macleod, Ford, Chrysler)	3	66.1
Other industrial products (American Wire and Cable, Republic Glass, Phelps Dodge)	3	52.4
Electrical and electronic appliances and apparatus (General Electric, Aircon, General Telephone and Electronics, Phil. Appliance, Phil. Electrical Mfg.)	5	39.1
Reconstituted milk (General Milk, Consolidated)	2	30.1
Food processing and related products (California Mfg., Wrigley, Far East Corn Refining, Standard Brands*)	4	26.3
Paper and related products (Scott Paper, Kimberly Clark, Phil. Paper Products*)	3	17.7
Sewing machines (Singer Industries, Singer Sewing Machine)	1	12.8
Other manufacturing enterprises (Muller & Phipps)	2	4.0
	73	1,057.7
Commerce, importing, exporting, distribution in domestic market		
Gasoline and automotive products (Mobil, Caltex,[a] Esso, Getty)	4	354.1
Machinery and equipment (USIPHIL, Edward J. Nell, Edward R. Bacon, Gould Pumps,* Shurdut Industrial Distributors,* Liberty Aviation,* Otis Elevator,* Ingersoll Rand,* Mastadon Equip.*)	9	72.5
Specialized importers and distributors (Phils. Remnants, Ault & Wiborg, Minnesota Mining and Mfg. (3M), P.F. Collier, Oceanic Commercial, Grolier, B.B. Fischer,* Solex Tool,* Newsweek,* J.P. Heilbronn*)	10	60.0

	Number of firms	U.S. owned net worth (P million)
Office machinery, equipment, and parts (IBM Phils., Burroughs, NCR, Taylor Pacific)	4	36.7
General importing, wholesaling, brokerage (Muller & Phipps, Macondray, Connel Bros., Warner Barnes, Atkins Kroll, Williams Equip.*)	6	29.2
Pharmaceuticals and related products (Sterling Prods., Ayerst Labs., Inhelder-Don Baxter, Inhelder Corp., Shering)	5	9.6
Primarily exporters (Granexport, Lancaster Phils., Bunnning & Co., Conrad & Co.*)	4	5.2
Other firms classified under "Commerce" (Luneta Motors,* Lawyers Coop. Publishing*)	2	3.8
	44	571.1
Service firms		
Management and investment (A. Soriano y Cia., Theo H. Davies, Boise Cascade*)	3	123.4
Insurance (Insurance Specialists,* E.E. Elser*)	2	.4
Media activities (Loreto F. de Henudes,* J. Walter Thompson,* McCann-Erickson*)	3	2.2
Other service enterprises (Airmac, Sanitary Steam Laundry, Phil. Edu., Inter-Island Constr., Pacific Airways,* Dean International*)	6	11.5
	14	137.5

	Number of firms	U.S. owned net worth (P million)
Public utilities		
Shipping and shipping agents (C.F. Sharp, Everett Steamship)	2	3.7
Telecommunications (ITT Phils.)	1	1.2
	3	4.9
Total, 165 largest, U.S., direct-investment, nonfinancial enterprises in the Philippines		P2,431.0
Financial enterprises		
Insurance (Phil.-Am. Life,* American Int. Underwriters*)	2	82.4[d]
Commercial banks (First National City Bank,* Bank of America*)	2	153.1
	4	235.5
Total, 169 largest, U.S., direct-investment enterprises in the Philippines		P2,666.5

Source: "Extent of American Investment in the Philippines in 1970," *Manila Chronicle*, 23 Nov. 1971. Also reprinted in the Philippine Economics Association's *Philippine Weekly Economic Review* 19 (30 Nov. 1971).

*Not included in "SEC-Business Day 1000 Top Philippine Corporations for 1970."

a. U.S.-owned net worth of Caltex is divided equally between "manufacturing" and "commerce."

b. The direct investment of Proctor and Gamble is confined to the wholly owned subsidiary, Philippine Manufacturing Company.

c. Listed in the *Manila Chronicle* tabulation as Erlanger and Galinger.

d. Assumes 100 percent U.S. ownership of Philippine-American Life.

Appendix B

United States Nonfinancial, Direct-Investment Firms in Philippines
Ranked by U.S. Ownership Share of Net Worth, 1970
(P million, percent U.S.-owned net worth in parentheses)

Caltex (100)	330.6	
Benguet Consolidated (69)	208.5	
Mobil Oil (100)	170.2	
Atlas Consolidated (54)	141.0	
Bataan Refining (100)	101.5	951.8
A. Soriano y Compania (100)	90.5	
B.F. Goodrich (100)	76.9	
Philippine Packing (100)	73.1	
International Harvester-Macleod (100)	63.6	
Esso (100)	62.1	1,318.0
USIPHIL (100)	55.6	
Marcopper (41)	47.5	
Proctor and Gamble (100)	46.7	
Honiron Philippines (100)	40.0	
Bislig Bay Lumber (56)	35.7	
Firestone (75)	35.4	
Union Carbide (100)	35.3	
Goodyear (100)	34.9	
Theo H. Davies (90)	32.9	
Pepsi Cola Far East Trade Development (100)	31.2	1,713.2
Filoil Refining (67)	28.4	
General Milk (74)	24.2	
California Manufacturing (100)	22.9	
American Wire and Cable (100)	22.8	
Pepsi Cola Bottling (100)	22.2	
Hawaiian-Philippine (98)	19.5	
Colgate-Palmolive (100)	19.3	

Getty Oil (100)	18.1	
IBM Philippines (100)	17.2	
Coca Cola Export (100)	17.0	
Republic Glass (55)	15.0	
Phelps Dodge (61)	14.6	
Insular Lumber (97)	13.9	
Legaspi Oil (83)	13.5	
San Carlos Milling (66)	13.5	
Bogo Medellin Milling (92)	12.9	
Philippines Remnants (100)	12.7	
Gelmart Industries (99)	12.3	
Reynolds Philippines (51)	12.0	
Ault & Wiborg (100)	11.9	2,057.1

Source: "Extent of American Investment in the Philippines in 1970," *Manila Chronicle*, 23 Nov. 1971. Also reprinted in the Philippine Economics Association's *Philippine Weekly Economic Review* 19 (30 Nov. 1971).

Notes

1. U.S. Philippine Commission, 1900-1916, *Report of the Philippine Commission . . . 1901*, 4 vols. (Washington, D.C.: Government Printing Office, 1901), 1:148-50.

2. U.S. Public Law (PL) 235, 1 July 1902, 32 Stat. 691.

3. For an informative account of the confusion and bureaucratic chicanery attending the transfer to American rule during 1898-1902, conditions which resulted in the establishment of legal claims to the lode and placer gold deposits worked by Filipinos from the ealiest of times, see Winifred L. Djajengwasito, "History of the Mining Industry in the Philippines, 1898-1941" (Ph.D. diss., Cornell University, 1972), 21-37.

4. U.S. PL 28, 8 Mar. 1902, 32 Stat. 11, sec. 5; U.S. PL 5, 5 Aug. 1909, 36 Stat. 11.

5. For the United States share of the average value of insular exports and imports, 1930-34, see Philippine Islands (P.I.), *Annual Report of the Collector of Customs, 1935* (Manila: Bureau of Printing, 1935).

6. U.S. Department of Commerce, Bureau of Foreign and Domestic Commerce, *American Direct Investments in Foreign Countries*, Trade Information Bulletin no. 731, November 1930.

7. Philippine Constitution, articles XII, XIII, and XIV; Philippines (Commonwealth), Commonwealth Act (CA) 137, 7 Nov. 1936; CA 141, 7 Nov. 1936. By the end of 1970, no fewer than twenty-eight Philippine laws established

Filipino nationality requirements for various economic activities; see *Study of Private Foreign Investments in the Philippines as of 12/31/1970* (Manila: Republic of the Philippines [R.P.], Inter-agency Working Group on Foreign Investments, 1971), annex A.

8. U.S. PL 370, 30 Apr. 1946, 60 Stat. 128; U.S. PL 371, 30 Apr. 1946, 60 Stat. 141.

9. Frank H. Golay, *The Philippines: Public Policy and National Economic Development* (Ithaca, N.Y.: Cornell University Press, 1961), 112.

10. Ibid., 128.

11. The U.S. Department of Commerce, *Survey of Current Business*, reports annually the value of American direct investment, defined as investment in enterprises with at least 25 percent American ownership.

12. R.P., Republic Act (RA) 1180, 19 June 1954; R.P., RA 3018, 2 Aug. 1960.

13. Frank H. Golay, Ralph Anspach, M. Ruth Pfanner, and Elizer B. Ayal, *Underdevelopment and Economic Nationalism in Southeast Asia* (Ithaca, N.Y.: Cornell University Press, 1971), 90-91.

14. Recent examples include the sale announced in May 1980 of 70 percent of the equity of Getty Philippines, Inc., the share remaining in American hands, to two Filipino firms. A year later, B.F. Goodrich announced the sale of its 54 percent stake in B.F. Goodrich Philippines, Inc., to a wholly owned subsidiary of Sime Darby of Malaysia. In mid-1983, Mobil Corporation, the third-largest foreign multinational in the Philippines, announced plans to "pull out" of the Philippines by selling its marketing facilities to Caltex Petroleum Corporation for $39.8 million and by transferring Mobil's 40 percent share in the Bataan Refining Corporation to the government-owned Philippine National

Oil Company at a price not specified. See *The Philippine Newsletter* 1 (May 1980); *New York Times*, 10 June 1981, p. D5; and *Wall Street Journal*, 8 June 1983, p. 35.

15. Krivenko v. Register of Deeds of Manila, 79 Phil. 461 (1947); Republic v. Quasha, 17 Aug. 1972, *Philippine Supreme Court Reports Annotated*, vol. 46.

16. R.P., RA 5816, 16 Sept. 1967.

17. U.S. Embassy, Manila, *Facts About RP-U.S. Relations* 2 (10 Apr. 1970):2.

18. Shortly after taking office at the end of 1961, President Macapagal allowed the peso to float downward and in mid-1963 it was stabilized at P3.90 per U.S. dollar. This rate was maintained until early 1971 when President Marcos freed the peso to float a second time. Later in 1971 the American dollar was allowed to float and two years later the exchange rate of the peso was stabilized at P6.70 per U.S. dollar.

19. R.P., National Economic and Development Authority, *Philippine Statistical Yearbook, 1978*, 162-63, table 4.10. If the calculated capital/output ratio had been more favorable for the Philippines--say 2.64, a very favorable ratio--the proportion of estimated Philippine capital stock at the end of 1977 represented by American direct investment would be 3.7 percent instead of 2.6 percent.

20. "SEC-*Business Day* 1000 Top Corporations in the Philippines, 1979," *Business Day* 11 (1979, special issue):14. The corporations listed are ranked by magnitude of sales.

21. Philippines (Commonwealth), Commission of the Census, *Census of the Philippines: 1939--Real Property*, Special Bulletin no. 3 (Manila: Bureau of Printing,

1941), 17, table 1; U.S. Embassy, Manila, *Facts About RP-US Relations* 4 (26 June 1970):1.

22. Lorenzo M. Tañada, *Nationalism: A Summons to Greatness* (Quezon City: Phoenix Publishing House, 1965), 61-62; R.P., NEDA, *Philippine Statistical Yearbook, 1978*, 243, 245, 249, tables 5.2 and 5.3. Commercial crops include coconuts, sugar cane, and native (cigar) tobacco.

23. *New York Times*, 29 May 1975.

24. *Policy Research* 1 (1 November 1974):4-5; R.P., Presidential Decree 471. For a comprehensive analysis of the resolution of issues raised by the Quasha decision, see Haru Landes and James E. Landes, "Divestment of U.S. Equity and Land Holdings in the Philippines, 1970-1976," part 3, *Aoyama Keizai Ronshu* [Aoyama economic review] 30 (April 1978):38-72 (in English).

PHILIPPINE-AMERICAN ECONOMIC INTERACTIONS: A MATTER OF MAGNITUDE

Norman G. Owen

Ang banga ay di maaaring manalo sa tapayan

Tagalog proverb*

Historical writing on the economic relationships between the Philippines and the United States has often taken the form of a history of governmental policies and the motives behind them.[1] From the start, most Americans claimed the benevolence of their intentions, while anti-imperialists and Filipino nationalists disputed that claim. The records of public debates, to say nothing of the private correspondence of officials, still make fascinating reading, but it is by now clear that they do not suffice to explain the uneven course of economic history. From the boom-or-bust cycles of commodity prices to the persistent poverty of the rural Philippines, what happened was often neither the visible result of specific policies nor the intention of the men who made those policies.

Recently a more structural approach has prevailed, interpreting imperialism not simply as the taking of

---

*"A clay pot cannot win against a water jar." Damiana L. Eugenio, *Philippine Proverb Lore* (Quezon City: University of the Philippines, 1967), 378.

colonies, but as any subordinate relationship forced on a weaker society by a stronger one. "Imperialism," thus defined, does not start in 1898 or end in 1946 but pervades and underlies the long-term relationship between an advanced capitalist state and an agrarian society open to its penetration. On the American side, such an approach helps to explain, if any explanation is necessary, why actual policy so often contradicted ostensible colonial aims. Across the Pacific it helps to account for export specialization, rising dependency on foreign markets, political reinforcement of a collaborating Filipino elite (or "comprador bourgeoisie"), and the failure of peasants to benefit from putative prosperity.[2]

There is no doubt that such an approach can be analytically useful in dealing with Philippine-American economic interactions; it is equally clear that it leaves unexplained certain discrepancies and paradoxes. If American capitalism came to the Philippines with no other end in mind than straightforward exploitation of Filipinos for its own profit, then it did a poor job--at times inefficient, at times absentminded, at times downright contradictory, allowing Filipinos to profit at American expense. On balance, of course, the net flow of resources was from the Philippines to the United States, and it is hard to dispute that American imperialism was responsible for many of the economic problems the Philippines still faces. Yet by comparison with such colonies as French Indochina and the Netherlands Indies, the Philippines seems to have escaped fairly lightly, suggesting that something other than brute capitalism was at work.[3]

Efforts to explain these discrepancies generally take one of two forms. Some emphasize the "special relationship" and those qualities in American culture and politics--guilt, altruism, legal scruples, etc.--which may have tempered cruder economic drives. Others attempt to explain away each

apparent paradox as a materialist contradiction misunderstood. Capitalism, they point out, is not monolithic, and at times different capitalists will favor differing strategies in the common struggle for profits. Some seek markets for their manufactures, some seek outlet for underemployed capital, some seek protection from colonial imports, and all are capable of shifting tactics in response to changes in the global economic environment. Moreover, there are always some business and political interests that insist on short-term profitability while others, farther-sighted or better-heeled, are willing to sacrifice immediate gains for long-term advantage.

Any comprehensive overview of Philippine-American interactions must take into account both of these perspectives; men do not act for economic motives alone, but economic motives are also more complex than we sometimes recognize. This essay, however, attempts no such overview. Instead it identifies another factor in the equation, often overlooked because it is so obvious: the factor of magnitude. If we think only in terms of population, the United States is today merely five times as large as the Philippines, though it was ten times as large at the turn of the century. But the trade of the United States is roughly forty times as great as that of the Philippines and its gross domestic product is more than eighty times as great.[4] Disparities on this order are neither transient nor incidental; they can influence the course of interactions as surely as the disparity between a twenty-four-wheeled diesel rig and a Volkswagen can influence the effects of a collision between them.

* * *

By the mid-nineteenth century, long before Dewey sailed into Manila Bay, the two unequal economies were already in close contact. The commercial economy of the Bikol region (in southeast Luzon), for example, was almost totally

dependent on the export of one crop--abaca, or Manila hemp--to the markets of the United States and England. As those markets rose and fell, they carried the Bikol economy with them. As a result, the cycles of the American industrial economy are visible in a variety of local indicators in the region: land prices, wages, cockfight and town market revenues, even marriage rates.[5] By the mid-1880s, shipments of sugar to the United States accounted for nearly one-quarter of the total value of exports from the Philippines, yet the same shipments accounted for less than 1 percent of the total value of United States imports. Despite some fluctuations, throughout the late nineteenth century Philippine-American trade was normally about thirty times as valuable to the Philippines as it was to the United States.[6]

Formal American colonialism in the Philippines increased the intensity of contact between the two economies but hardly touched the basic disproportion. The ratio did dip slightly in the 1930s, to about twenty-to-one; the United States accounted for about 70 percent of all the foreign trade of the Philippines, but this same commerce amounted to some 3.5 percent of total American foreign trade, a record high. By the 1950s, however, the ratio had returned to thirty-to-one (60 percent of all Philippine trade equaling 2 percent of American trade), and it remained at the same level, though the percentages fell, in the 1970s. Whatever the commodity, whatever the price, whatever the direction of the exchange, trade between the two countries continues to be about thirty times more significant to the Philippine economy than to the American.

The most obvious implication of this disproportion in scale is a potential disproportion in power. The United States has always had the capacity--intentionally or inadvertently, benevolently or maliciously--to influence the Philippine economy. The reverse is not generally true. Philippine economic history can scarcely be written without

reference to American tariffs and fluctuations in the American market for sugar, fibers, vegetable oils, and minerals. Truer than the truism that "Whenever Washington gets a cold, Manila sneezes" is the fact that whenever Wall Street gets a cold, Makati sneezes. Even the current export-oriented industrialization of the Philippines, as Robert Snow notes, presumes continued access to the United States; a new wave of protectionism here, whatever its intentions, could virtually obliterate the growth in electronics and textiles of which Marcos is so proud and on which he counts so heavily.[7] Yet to the American economy, both past and present, the Philippines is a mere footnote.

Such economic preponderance may, of course, be translated directly into political leverage. Many scholars have already studied the political history of the economic relationship, though much still remains to be learned. Controversy on both sides of the Pacific has surrounded key events, from the Organic Act of 1902 through the Hare-Hawes-Cutting Bill of 1932 to the surge of American aid after martial law was declared in 1972. In a few instances the United States flagrantly abused its economic preponderance, particularly in the postwar period, when desperately needed and repeatedly promised rehabilitation aid was withheld to extort the "parity amendment" from the Philippines.[8] In other instances the facts are as yet less clear or are susceptible to conflicting interpretations; scholarly analysis goes on.

Yet while scholars continue to debate over how wisely or justly the United States used its power, the power itself is the irreducible reality. Whatever the circumstances, whatever the intentions of policymakers or the skills of negotiators, the Philippines has remained "always in the unenviable position of meaning infinitely less to the United States than the United States meant to the Philippines."[9] This imbalance of meaning, rooted in the imbalance of

magnitude, does not of course explain all the vagaries of policy. But recognition of the inherent disproportion in the Philippine-American relationship may help explain two themes frequently noted in the literature: American ambivalence and, to borrow Claro M. Recto's term, Filipino mendicancy.[10]

The ambivalence, not to say ambiguity, of American imperialism has been commented on by many scholars. The unintended ironies of "benevolent assimilation" and the "little brown brother" have been succeeded by more conscious paradoxes: "imperialism of suasion," "cooperation and cross-purposes," "permissive" colonialism, even "compadre colonialism."[11] The recognition of this ambivalence does not imply a denial that American imperialism had specific characteristics, many of which were and are detrimental to the Philippine economy. But it is clear to all but the most fervent anticolonialist that the United States rarely if ever had a real colonial "policy," in Webster's sense of the word: "a settled course adopted or followed." The course of American actions in the Philippines, though inspired in a general sense by capitalism, was anything but "settled." From the beginning, it was characterized by "neither wisdom nor consistency," in the words of Richard Welch, Jr.[12] Other historians of the early colonial period comment on the "absence of concrete American plans," refer to "colonization by improvisation," or claim flatly that "the United States did not have an economic policy in the Philippines."[13]

Certain general principles may still be posited, of course. The Philippines was encouraged (or forced) to maintain a free market economy with which the United States could trade and in which American capital could operate freely. Toward this end the United States since 1898 has felt free to intervene in Philippine politics, openly or covertly, on behalf of pro-American leaders and probusiness policies, throwing its considerable weight against any

perceived threat to the capitalist connection.[14] Yet no sooner do we articulate these classic colonial and neocolonial principles than we can think of exceptions. Congress consistently thwarted most of the efforts of the early Philippine Commission to facilitate American investment in the colony. Later the colonial authorities permitted in the Philippines a governmental role in the economy that would have been rejected as "socialistic" had it been proposed in the United States; they also allowed foreign competitors, such as the Japanese, greater scope in the Philippines than any other imperial power ever permitted its commercial rivals. In the postwar period some Americans urged retention, others separation; similarly there were divisions on whether the Philippines should continue primary production or attempt industrialization, peg the peso or devaluate it, accept aid or seek self-sufficiency.[15]

Several lifetimes of scholarship may be necessary to disentangle all the interests that conflicted and coalesced to shape the hodge-podge of American actions in and toward the Philippines. Yet underlying all the complex questions is one simple fact: to the United States as a whole the Philippines simply did not, and does not, matter. We do not perceive our "vital national interests" at stake there. No doubt there is an element of racism in this, as there has been in almost all American dealings with Filipinos. But decision-makers in the United States have ignored or discounted not only the opinions of Filipinos but also those of most Americans in the Philippines. The Philippine Commission and the community of "Manila Americans" regularly failed in their efforts to have their own retentionist vision implemented by Congress, and they railed long and hard against policies which (they claimed) injured Filipino and American interests alike. Few of the governors general, from Taft to Murphy, were ever entirely satisfied that the United States was doing all it could or should for the Philippine economy.[16] And in the postwar period, American

ambassadors, CIA agents, and businessmen have generally had more influence in Malacañan than in the White House. There is no significant instance of the United States shaping its basic economic policies to fit the realities of the Philippines, even as these were perceived and defined by local Americans.

The fundamental disproportion of scale is a major reason that the Philippines has always, from the beginning, been peripheral to the United States. Even the vocal imperialists and anti-imperialists during the Philippine-American War failed to sustain their debate with any intensity; the issue eventually was abandoned, rather than resolved.[17] To the extent that Americans in the Philippines were identified with the periphery of America's formal or informal empire, they tended to lose influence in the core, where real decisions were made. No professional civil service was created, and the Bureau of Insular Affairs, though characterized by one historian as "America's Colonial Desk," was but a pale shadow of the Colonial Office in London.[18]

Thus America's colonial and postcolonial policy acquired its ambivalence. It was never the product of a conscious and continuous decision-making process, much less of national will or purpose. Instead it was created by a shifting series of ad hoc coalitions of interests that happened--at a particular time, on a particular issue--to care about a situation that did not greatly concern the United States as a whole. This of course offered opportunities for the exercise of very considerable leverage. Even a small force, exerted at the right point, might swing the whole massive weight of America toward or away from the Philippines. Not surprisingly, given the structure of corporate America, such forces often represented business interests. But most American businessmen were also relatively indifferent to the

Philippines, so at times one firm, perhaps even one man (Elihu Root and Paul McNutt come to mind) might be in a position to shape or alter American policy--which accounts for some of its inconsistency. Whether or not a more consistent policy would have benefited the Filipinos or merely exploited them more systematically is a matter for speculation.

If American ambivalence may be attributed in part to the fact that the Philippines mattered very little, Filipino mendicancy may be attributed in part to the fact that the United States mattered too much. Even the Nacionalista heroes of the colonial period came to power with the aid of American patrons and repeatedly shied away from rapid and real independence, opting instead to retain a political connection that meant, among other things, preferred access for Philippine goods in the American market.[19] Political independence has scarcely altered this relationship, as one government after another, despite nationalist rhetoric, has shown its reluctance to break with the United States. "A bankrupt administration must necessarily have a foreign policy of mendicancy," said Recto in 1951, ". . . and because beggars cannot be choosers, we can be safely ignored, taken for granted, dictated to, and made to wait at the door, hat in hand, to go in only when invited."[20] Though time has altered a few details, the same accusations continue to be made more than a quarter of a century later.[21] Filipino patriots may--and should--debate the political ethics of the decisions and indecisions of their elected leaders. Historians may appropriately attempt to analyze the phenomenon of mendicancy in its context, which includes the factor of magnitude.

The Filipino political elite, nearly always intelligent (whatever else may be said of them), have from the beginning perceived not only the might of American arms and the seductiveness of American culture, but also the importance

of the United States to the Philippine capitalist economy and thus also to their own individual and class interests. Imperialism forcibly brought the two countries together and allowed the larger economy to penetrate and dominate the smaller. It was the role of the elite, as they perceived it themselves, to make the best of the situation; this implied accepting, and attempting to manipulate, the dependency inherent in the disproportion of scale.

Once this dependent relationship was accepted, it was logically consistent for Filipinos, from the Federalistas of the 1900s to the technocrats of the 1980s, to take advantage of whatever opportunities existed within the unequal partnership. The Federalistas' advocacy of annexation, the rise of the sugar bloc (with its perpetual and generally successful lobbying for larger quotas in the United States), and the extensive borrowing in the postwar period, even when the loans have had visible strings, all might be interpreted this way. So might the paradox of Marcos actively soliciting American investment in the hope--he says--that he can build thereby an industrial base which may in time enable the Philippines to be economically independent at last.

The alternatives, for many Filipino leaders, have been almost literally inconceivable. Unlike the revolution against Spain, which was physically dangerous but involved little social or economic readjustment,[22] a revolution against the United States, at first militarily unwinnable, soon became economically unthinkable. Too many Filipinos produced goods that could be sold with profit only in the United States; too many of the imports and investments Filipinos had come to require were of American origin. Real independence would have jeopardized all this as well as risking possible direct reprisals, while any "independence" that left intact the power of American capital to penetrate

the Philippines would also leave intact a relationship of dependency of the weaker economy on the stronger.

In this respect, at least, the "Americanists" in the Philippines were often more realistic or honest than their nominally nationalist rivals. The latter persisted in claiming that the Philippines could enjoy independence without paying any significant price. Yet the price was and is real. The cessation of trade with and aid from the United States would be a tremendous shock to capitalism as it now exists in the Philippines, a shock from which it might not recover. A "sequestered" free-enterprise economy is theoretically possible, but is unlikely to prosper in the short run, as the technocrats well know. True independence for the Philippines, then, would involve *radical* change, and there is a sense in which the "Americanists" have been honest in recognizing and opposing this.

There have, of course, also been some Filipinos who would have accepted or even welcomed the radical reorientation of the economy real independence implied. Some looked backward to idyllic communalism, some looked forward to a version of socialism, some were simply willing to pay any cost to be free of foreign domination. But from Macario Sakay and Felipe Salvador through the Huks and the student movement to the National Democratic Front, their voices have been suppressed, in part by Americans, in part by Filipinos who feared that they might offend the Americans.[23] The dominant propensity in twentieth-century Philippine politics has been to respond to the United States as a poor peasant might to a powerful landlord--at times grateful, at times resentful, but always acutely aware of the great disproportion that lies between them.

Certainly the factor of magnitude does not by itself account for the contrast between Filipino and American attitudes towards their mutual interaction. By comparison with Americans, Filipinos believe in the "special

relationship" more deeply, worry about it more persistently, and curse more roundly when it is betrayed.[24] This imbalance of concern is not easy to interpret; few confidential records have survived, and in the very nature of unequal relationships it is often in the interest of the weaker party to conceal true feelings even from supposed friends. We must, of course, take into account the direct role of the United States in shaping Filipino values through education ("miseducation," in Renato Constantino's view) and through reinforcement of pro-American leaders and repression of anti-American alternatives.[25] Cultural variables also may be included; like other Southeast Asians, Filipinos are inclined to personalize economics (as in the *suki* relationship), while Westerners tend to cleave to the adage that "business is business."[26] Yet even where neither colonialism nor culture can explain it, an inverse intensity of concern may accompany an enormous disproportion of scale; witness the obsession of many Canadians with the United States in contrast with our vast indifference to our northern neighbor.

* * *

Though the political history of Philippine-American economics may be difficult to analyze, at least its outlines are known. On the other hand, the history of business--through which the disproportion of scale was actually mediated--is virtually *terra incognita*. Not only are business records less accessible to historians, but the subject has generally been less intriguing to them as well. Businesses, we assume, seek assiduously to maximize profits by all legal means and may even bend or break the law whenever they think they can get away with it. Thus there is little of the dramatic discrepancy between professed ideals and actual policy that so enlivens the history of governments. (Businessmen do profess ethics, of course, but no one takes this too seriously.) Without this inherent

drama, business history can easily become no more than a register of company officials and a chronicle of profits and losses, scarcely of interest to anyone outside the firm studied.

The few and valiant efforts to write the history of Philippine-American business interactions have tended to be--as pioneering research often is--either so general as to be superficial or so firm-specific that no larger context is visible. More and deeper studies are certainly needed, and there are signs that some may be forthcoming.[27] In the interim, discussing the significance of magnitude in Philippine-American business history is less a matter of interpreting existing scholarship than of suggesting what future scholars might look for.

During the nineteenth century two Americans firms--Russell & Sturgis and Peele, Hubbell & Co.--made significant contributions to the development of a Philippine export economy. They created, in the words of Benito Legarda, Jr., "the nexus between the Philippine economy and the currents of world trade."[28] By regular cultivation of foreign markets (especially the United States and England) they helped stimulate the demand for Philippine produce; by skillful mobilization of local capital they helped stimulate the production to meet that demand. At times the two firms handled more than half the insular output of the two most important export crops, sugar and abaca. One twenty-five-year-old American clerk in Albay, in fact, purchased for their "joint account" one-third of the entire abaca production of the Philippines in 1862-63.[29]

The partners of Peele, Hubbell & Co. conformed in general to the business ethic of their day. They worked hard, they were honest according to their lights, and they tried to be fair with each other and with their agents and brokers. They also, however, tried very hard to create an oligopsony in abaca, with the intention of driving down the

local price to just what it would pay cultivators to continue growing it; the result, as one of them put it, would be to make "more Money . . . for white people."[30] If exploitation is defined as taking from the worker most of the real value of what he produces, leaving him barely enough to live on, then Peele, Hubbell & Co. clearly aspired to be exploiters. In fairness, although they regularly maligned the Filipinos and attempted to exploit them, they also denigrated the Spaniards and a fair number of English and American merchants, making every effort to profit at their expense as well. Like most men of their time, they were racist, but racism was not the issue. Capitalism was.

Yet the final winners in this encounter were not the American merchants. Russell & Sturgis went bankrupt in 1875; Peele, Hubbell & Co. followed in 1887. Nor were the final losers the abaca cultivators of Albay, whose standard of living actually seems to have risen slightly during the nineteenth century. This is not to deny that substantial profits were remitted to the United States or even that the cordage-makers and farmers of the United States enjoyed cheaper fiber than they might otherwise have obtained. The opportunity costs to the Filipinos should not be ignored, though they are all but impossible to calculate. Who can tell what profits, if any, there would have been without the Americans or how these might or might not have been invested in local development? Nevertheless, the exploitation of Filipinos by nineteenth-century American merchants was relatively inefficient as such matters go.

Part of the difficulty faced by these firms was a matter of magnitude. Each was nominally capitalized at less than a million dollars and was considerably overextended much of the time. Each had borrowed heavily and was able to repay old loans only through almost constant success in new ventures. Neither could dominate the abaca trade directly; even when they pooled their endeavors in the "joint account"

they could not run off their British and Spanish rivals nor get them to join the cartel. Neither had great political influence within the Philippines; they may have befriended a few provincial officials and even bribed a few judges, but they could not shape colonial policy. Finally, neither had any significant economic interests outside the Philippines. Their fortunes, like those of other local firms, rose and fell with the Philippine economy as a whole. In their immediate profit-seeking they always had to be careful not to destroy the industries on which their profits ultimately depended.[31]

Although these two firms eventually collapsed, the tradition of local American business which they had pioneered did not vanish forever. After 1898 new firms were created--Lusteveco and Benguet Consolidated among the most prominent--which became equally significant in the economic history of the Philippines.[32] More research on how American businessmen differed from their Filipino and Chinese rivals might be useful; the values and business practices of the Philippines today, like its cuisine, represent an amalgam of local and alien traditions. Yet in one important respect these firms resembled their twentieth-century rivals as well as their nineteenth-century predecessors. Both their financial leverage and their political clout were limited by their size and by their location on the periphery of the American empire. They may have appeared to be pretty big fish, but they were no larger than the pond in which they were bred.

At the same time, however, some truly big fish began to enter Philippine waters--the "multinational" American corporations. In scale and scope these were quite unlike anything the Philippines had known before.[33] In 1904, Macleod & Company, a British merchant house, was bought for $190,000 by International Harvester Company, a corporation capitalized at some $120 million--over six-hundred times the

size of its new acquisition--and backed by credit from both J. P. Morgan and John D. Rockefeller. Within seven years Macleod had more than doubled in value and was handling over one-third of all the abaca exports of the Philippines. But the $5.5 million worth of abaca Macleod exported, which accounted for about one-eighth of the total exports of the Philippines, amounted to just one-tenth of the total business of the parent firm. By this criterion International Harvester mattered more to the Philippines than the Philippines mattered to International Harvester.[34]

International Harvester may have employed its size to the disadvantage of the Philippines in two different ways, if its critics can be believed. First, the firm was a leader in the lobby of American fiber importers and cordage makers that successfully urged the establishment and subsequently fought the repeal of an export tax on Philippine abaca and a rebate of that tax to whoever imported abaca into the United States. In effect this amounted to a Philippine subsidy of the American cordage industry, yet the protests of both colonial officials and Filipino politicians were regularly ignored by the U.S. Congress, which was more disposed to listen to the domestic lobby. According to one calculation, over $4 million was diverted from Filipino producers or the insular treasury to the pockets of American importers between 1902 and 1910.[35]

Second, International Harvester, according to some colonial officials, deliberately induced the great depression in abaca prices that began in 1907 and lasted until World War I. The truth of this allegation, more serious than the former, has not to my knowledge been established. It is now known that in 1902 International Harvester entered into a secret agreement with the governor of Yucatan (Mexico) to depress artificially the price of sisal hemp, the chief determinant of world hard fiber

prices.[36] But it is also clear that another cause for the decline in abaca in 1907 was a major industrial slump in the United States, for which International Harvester can scarcely be blamed.

Though further research is clearly called for, it may be impossible to ascertain the truth of these allegations or assess with any precision the damage International Harvester may have done. It is significant, however, that the allegations are plausible. Unlike local firms, the center of gravity of International Harvester lay elsewhere; its corporate interests might well have been served by sabotaging the Philippine abaca industry. And it had--again, unlike local firms--the potential leverage to do so, to buy influence in Washington and Mexico, to influence markets by collusion or even by sheer weight. Any deeper historical investigation of the role played by International Harvester in the economic history of the Philippines will have to take into account the factor of magnitude.

The same general considerations might apply to other giant American corporate interests in the Philippines, from the Hawaiian sugar bloc to the First National City Bank. They had both global interests which might at times override their Philippine concerns and the scale to take effective action on behalf of these interests. Standard Vacuum Oil Company, for example, was founded in 1933 as the joint Far Eastern subsidiary of Socony Vacuum (the forerunner of Mobil) and Standard Oil of New Jersey (the forerunner of Exxon). The nearly two million barrels of petroleum products Stanvac sold in the Philippines in 1939 accounted for about 45 percent of local consumption, yet represented just two-thirds of one percent of the total global production of the parent companies. Stanvac had some $6.7 million invested in the Philippines at the outbreak of World War II. This represented 2.2 percent of its investments in East and Southeast Asia, 1.5 percent of the

total foreign investments in the Philippines, but just 0.2 percent of the combined assets of Socony and Standard of New Jersey, which approached $3 billion--nearly nine times the total commodity output of the Philippines![37]

By 1980, the Ford Motor Company had $45 million invested in the Philippines, an important component in local industrialization plans. Yet this $45 million also amounted to just 0.2 percent of the company's global assets, and compared unfavorably with the $2.5 billion a year Ford was investing in capital expenditures in North America, the $1.2 billion Ford spent in Spain before a single car was produced, or even the $700 million Ford *lost* on the Edsel. Ford, whose total assets of $23.5 billion approximate in magnitude the entire gross domestic product of the Philippines, supplies about one-third of all motor vehicles sold throughout the entire region of Southeast Asia, yet this fleet of Fieras represents less than one-third of one percent of Ford's global production of vehicles.[38]

The sheer size of such firms as these does not, of course, indicate that they abused their power or exploited the Filipinos. But it does raise questions. In the aftermath of World War II, the three major prewar oil importers were reimbursed for a large portion of their war losses (by the American taxpayers) and given the exclusive right to distribute all petroleum products in the Philippines for a fee of ten cents a liter above cost (at the expense of Filipino consumers). Was this compensation--more substantial than that received by most war-ravaged Filipinos--in any way a function of their magnitude?[39] Thirty years later it was alleged that Henry Ford II accepted a $2 million bribe to build a Fiera stamping plant in the Philippines. Is this simply another proof that the rulers of the Philippines need the Ford Motor Company more than Ford needs the Philippines? Or does scale, in this case, work the other way, tending to exonerate Ford? Why

would the man or the company risk accepting a bribe in conjunction with anything as petty, from their perspective, as the Philippines?[40]

Focusing on possible abuses of power, however, may distract our attention from the problems that large firms potentially pose to the Philippine economy even when they are neither breaking nor bending the law. They simply matter too much. If Intel or Levi Strauss should decide--for perfectly honorable reasons--to disinvest from the Philippines (or refuse to market the products of its subsidiaries and subcontractors, which would be much the same), a sizable pocket of unemployment and a sharp drop in export earnings would be expected. Should the Ford Motor Company or the First National City Bank express unhappiness with a tax proposal, could the government of the Philippines really afford to offend them and risk losing their investments? It might be assumed that fruit companies (Dole, Del Monte, United Fruit), with their greater investments in land and physical capital, would have less propensity to flee, but they came to the Philippines after abandoning other locations where business and labor conditions were insufficiently favorable, and presumably they could take flight again.

The argument is not simply that small is beautiful or even less ugly than big. Obviously there may be substantial differences among businesses of all sizes in stability, employment patterns, and short-run and long-run contributions to national development (export potential, diversification, etc.), to say nothing of ethics. Yet to ignore scale and focus exclusively on comparative business practices would be as foolish as analyzing the comparative skills of two boxers while failing to point out that one is a featherweight, the other a super-heavyweight. We may rejoice at the tale of David and Goliath, but the wisdom of

Las Vegas remains: Bet on Goliath! For better or worse, size matters.

* * *

Finally, recognition of the factor of magnitude may alter our perspective on imperialism in its many varieties. Certainly a small nation may impose its will on a larger one. "God gave the Portuguese," as the proverb has it, "only a small country to be born in, but the whole world in which to die." In the modern era the disproportion of scale between the Netherlands and the Indies or between Belgium and the Congo has been predominantly in favor of the colony. Yet these tend to be precisely the colonial relationships most characterized by formality, rigidity, niggardliness, and tightly controlled imperial preference, as the metropolitan powers found they could only obtain profits by systematic regulation.

The greater the disproportion in favor of the colonial power, however, the more likely the relationship will resemble the "imperialism of free trade," which has been the predominant theme in Philippine-American interactions since the nineteenth century. Governments have come and gone, but under Spanish rule, American rule, and Filipino rule American business has enjoyed essentially unrestricted access to the Philippine economy. The results are largely explicable in terms of disproportion; the United States has not needed a whole panoply of arbitrary restrictions to dominate the Philippine economy. At times, as we have seen, American interests have indeed sought additional advantages--a tariff here, a rebate there--and at times local interests have fought back by restricting some of the activities of American business.[41] But these are merely variations on the central theme--once the door was opened for capitalism, magnitude did the rest.

The other great constant of Philippine economic history over the past century is the persistent poverty of the great

majority of Filipinos. Historians may debate over whether and when levels of living rose or fell slightly (with peaks in the 1910s and 1960s?), but it would be hard to prove that the material welfare of the average Filipino is significantly higher today than it was in the nineteenth century. Recent studies indicate that the level of nutrition in the Philippines is among the worst in Asia, second only to Bangladesh; international agencies estimate that 50 to 80 percent of all Filipino children are seriously malnourished.[42] Any study of the Philippine economy which fails to take this into account is disingenuous at best.

It is possible, of course, that this poverty is simply coincidental, explicable in terms of inadequate resources, short-sighted leadership, or just plain bad luck. Yet seen over the span of a century in which the poverty and the Philippine-American relationship are constants, it is difficult not to assume that they are somehow connected. Whatever its motives, whatever the specific policies it included, the "special relationship" has not proved healthy for the Filipinos. The juxtaposition of the two capitalist economies, imposed by imperialism, allowed the larger and stronger to dominate the smaller and weaker. This was true even when no evil was intended. Once imperialism had established the connection, the Philippines came to depend on an American domestic economy that was scarcely conscious of the existence of these distant islands, much less of its effect on them. To read the reports of colonial officials or postcolonial economic advisors during any of the numerous twentieth-century depressions or recessions is to realize their helplessness in the face of such structural problems. When the American fiber market plummeted, no official, colonial or indigenous, could save the Philippine abaca industry or those who depended upon it.

Ultimately, of course, the relationship has always been asymmetrical, despite occasional efforts to create a nominal

reciprocity. Perhaps this must always be the case; when two "partners" are so unequal, is real partnership possible?[43] It may be that the greatest good the United States could have done for the Philippines would have been to leave it alone. Possibly the wisest policy for the Philippines would have been some form of sequestration (if the United States had permitted it), regardless of the short-term costs. Focusing on the disproportion of magnitude does not prove that the relationship was inherently unhealthy, but it creates a strong, and sad, presumption.

Notes

1. See, for example, José S. Reyes, *Legislative History of America's Economic Policy Toward the Philippines* (New York: Columbia University, 1923); Jose P. Apostol, "The American-Philippine Tariff," *Philippine Social Science Review*, 1930-32 passim; Pedro E. Abelarde, *American Tariff Policy Towards the Philippines: 1898-1946* (New York: King's Crown Press, 1947); Shirley Jenkins, *American Economic Policy Toward the Philippines* (Stanford: Stanford University Press, 1954); cf. A. V. H. Hartendorp, *History of Industry and Trade in the Philippines* (Manila: American Chamber of Commerce, 1958), which, despite its title, is more a history of economic policy than of economics.

2. For a variety of Marxist and non-Marxist versions of this approach, see William J. Pomeroy, *American Neo-Colonialism: Its Emergence in the Philippines and Asia* (New York: International Publishers, 1970); Jose Ma. Sison [Amado Guerrero], *Philippine Society and Revolution* (Manila: Pulang Tala Publications, 1971); Alejandro Lichauco, *The Lichauco Paper: Imperialism in the Philippines* (New York: Monthly Review Press, 1973); Walden Bello and Severino Rivera, eds., *The Logistics of Repression and Other Essays* (Washington, D.C.:

Friends of the Filipino People, 1977); Jonathan Fast and Jim Richardson, *Roots of Dependency: Political and Economic Revolution in 19th Century Philipines* (Quezon City: Foundation for Nationalist Studies, 1979); and Stephen Rosskamm Shalom, *The United States and the Philippines: A Study of Neocolonialism* (Philadelphia: Institute for the Study of Human Issues, 1981). A useful introduction to general theory and debate in this area is Aidan Foster-Carter, "From Rostow to Gunder Frank: Conflicting Paradigms in the Analysis of Underdevelopment," *World Development* 4 (March 1976): 167-80; see also Charles W. Bergquist, *Alternative Approaches to the Problem of Development: A Selected and Annotated Bibliography* (Durham, N.C.: Carolina Academic Press, 1979).

3. Frank H. Golay, "Southeast Asia: The 'Colonial Drain' Revisited," in *Southeast Asian History and Historiography*, ed. C. D. Cowan and O. W. Wolters (Ithaca: Cornell University Press, 1976), 368-87, provides some comparative data.

4. United Nations, *Statistical Yearbook: 1978* (New York: United Nations, 1979).

5. Norman G. Owen, *Prosperity Without Progress: Manila Hemp and Material Life in the Colonial Philippines* (Berkeley: University of California Press, forthcoming).

6. Benito Fernandez Legarda, Jr., "Foreign Trade, Economic Change, and Entrepreneurship in the Nineteenth Century Philippines" (Ph.D. diss., Harvard University, 1955).

7. Robert T. Snow, "Export-oriented Industrialization, the International Division of Labor, and the Rise of the Subcontract Bourgeoisie in the Philippines," in this volume.

8. Hernando J. Abaya, *Betrayal in the Philippines* (1946; reprint, Quezon City: Malaya Books, 1970), 175-205; Jenkins, *American Economic Policy*, 42-96; Shalom, *United States and the Philippines: Neocolonialism*, 33-67; Frank H. Golay, "Economic Consequences of the Philippine Trade Act," *Pacific Affairs* 28 (Mar. 1955):53-70.

9. Claude A. Buss, "Introduction," in Jenkins, *American Economic Policy*, 21.

10. Claro M. Recto, "Our Mendicant Foreign Policy," in Teodoro A. Agoncillo, *Filipino Nationalism, 1872-1970* (Quezon City: R. P. Garcia Publishing Co., 1974), 321-46 (article first published in 1951). See David Wurfel, "Problems of Decolonization," in *The United States and the Philippines*, ed. Frank H. Golay (Englewood Cliffs, N.J.: Prentice-Hall, 1966), 154-55, on the connection between inequality of size/status and Filipino "emotionalism" in dealing with the United States.

11. Peter W. Stanley, *A Nation in the Making: The Philippines and the United States, 1899-1921* (Cambridge: Harvard University Press, 1974), 265-78; Mamerto S. Ventura, *United States-Philippine Cooperation and Cross-Purposes: Philippine Post-War Recovery and Reform* (Quezon City: Filipiniana Publications, 1974); Grant K. Goodman, "America's 'Permissive' Colonialism: Japanese Business in the Philippines, 1899-1941," in this volume; Norman G. Owen, ed., *Compadre Colonialism: Studies on the Philippines Under American Rule*, Michigan Papers on South and Southeast Asia, no. 3 (Ann Arbor: Center for South And Southeast Asian Studies, The University of Michigan, 1971).

12. *Webster's New Collegiate Dictionary*, s.v. "policy"; Richard E. Welch, Jr., *Response to Imperialism: The*

United States and the Philippine-American War, 1899-1902 (Chapel Hill: University of North Carolina Press, 1979), 155.

13. Bonifacio S. Salamanca, *The Filipino Response to American Rule, 1901-1913* (Hamden, Conn.: Shoestring Press, 1968), 185; Salvador P. Lopez, "The Colonial Relationship," in Golay, *United States and the Philippines*, 8; Glenn Anthony May, *Social Engineering in the Philippines: The Aims, Execution, and Impact of American Colonial Policy, 1900-1913* (Westport, Conn.: Greenwood Press, 1980), 129. See also Theodore Friend, *Between Two Empires: The Ordeal of the Philippines, 1929-1946* (New Haven: Yale University Press, 1965), 5 ("American economic policies worked at cross purposes: some prompted self-reliance and others fostered dependence"); Sidney Fine, *Frank Murphy: The New Deal Years* (Chicago: University of Chicago Press, 1979), 5 ("American policy in the Philippines tended to emphasize first one and then the other of the twin objectives of American rule"). Though Shalom attempts to argue that American neocolonialism in the Philippines was conscious and programmatic, he also provides evidence that on certain questions American "policymakers were seriously divided" (p. 38).

14. Shalom is the most articulate exponent of this argument, especially for the period 1944-54, but the point is also made by most other serious scholars of the relationship, and the fact of American involvement in the politics of the "independent" Philippines is acknowledged by all. On Philippine politics under American colonialism, see the sources cited in notes 19 and 23 below.

15. May, *Social Engineering*, 129-75; Golay, "'Manila Americans' and Philippine Policy: The Voice of American Business," in this volume; Stanley, *Nation in the*

Making, 226-48; Friend, *Between Two Empires*, 151, 159; Leo C. Stine, "The Economic Policies of the Commonwealth Government of the Philippine Islands," *University of Manila Journal of East Asiatic Studies* 10 (March 1966):1-136; Goodman, "'Permissive' Colonialism"; Hartendorp, *History of Industry*, 49-60; Jenkins, *American Economic Policy*; Shalom, *United States and the Philippines: Neocolonialism*.

16. U.S. War Department, Bureau of Insular Affairs, *Report of the Philippine Commission*, 1900-1916 passim; Golay, "'Manila Americans' and Philippine Policy"; May, *Social Engineering*, 142-43, 153-60, 174; Fine, *Frank Murphy*, 119-54.

17. Welch, *Response to Imperialism*, supersedes or refutes most of Daniel B. Schirmer, *Republic or Empire* (Cambridge, Mass.: Schenkman Publishing Co., 1972) and provides a fascinating compendium of the views of American politicians, businessmen, labor leaders, churchmen, and intellectuals, showing in case after case how interest in the Philippines flagged a year or two after annexation. It was not an issue which produced sustained commitment--for or against imperialism--in any but a tiny minority; the majority soon acceded to the fact of American colonialism, for better or worse.

18. Romeo V. Cruz, *America's Colonial Desk and the Philippines, 1898-1934* (Quezon City: University of the Philippines, 1974). It is interesting to note that except for Taft no American governor general or high commissioner (much less any chief of the Bureau of Insular Affairs or ambassador to the Philippines) succeeded in using the post as a springboard to the presidency, though several entertained such ambitions. Apparently most Americans were not impressed with the colonial experience the Philippines provided.

19. Michael Cullinane, "The Politics of Collaboration in Tayabas Province: The Early Political Career of Manuel Quezon, 1903-1906," and "'Osmeña Is King and All Is Well': Philippine-American Politics, 1898-1907," both forthcoming; Friend, *Between Two Empires*, 34-148; Theodore Friend, "Manuel Quezon: Charismatic Conservative," *Philippine Historical Review* 1, no. 1 (1965):153-69; Joseph F. Hutchinson, Jr., "Quezon's Role in Philippine Independence," in Owen, *Compadre Colonialism*, 157-94; Renato Constantino, *The Philippines: A Past Revisited* (Manila: Tala Publishing Co., 1975), 308-41.

20. Recto, "Mendicant," 335-36.

21. Renato Constantino and Letizia R. Constantino, *The Philippines: The Continuing Past* (Quezon City: Foundation for Nationalist Studies, 1978), 269-344; William J. Pomeroy, *An American-Made Tragedy: Neo-Colonialism & Dictatorship in the Philippines* (New York: International Publishers, 1974), 17-67, 91-128; Renato Constantino, "Real Independence Is Still Not Yet Complete," *Far Eastern Economic Review*, 17 Nov. 1978; "U.S.-R.P. Relations Under the Carter Administration--An Analysis," *Philippine Liberation Courier*, 25 Mar. 1979; Shalom, *United States and the Philippines: Neocolonialism*, 86-144, 161-82. Critics charge that the shift in borrowing from the United States to the American-dominated World Bank and International Monetary Fund alters only the form, and not the structure, of Philippine dependency; Walden Bello, "Development and Dictatorship: Marcos and the World Bank," in Bello and Rivera, *Logistics of Repression*, 93-133; Cheryl Payer, *The Debt Trap: the IMF and the Third World* (Harmondsworth, Middlesex: Penguin Books, 1974), 50-74.

22. Milagros Camayon Guerrero, "Luzon at War: Contradictions in Philippine Society, 1898-1902" (Ph.D. diss., University of Michigan, 1977), shows how radical tendencies within the Philippine revolution were systematically undercut and eventually extirpated by Aguinaldo and the *ilustrados*.

23. On Sakay and Salvador, see Reynaldo Clemeña Ileto, *Pasyon and Revolution: Popular Movements in the Philippines, 1840-1910* (Quezon City: Ateneo de Manila University Press, 1979), 197-313; on other radical elements in the Philippine Revolution, see Guerrero, "Luzon at War." The decision of the Filipino elite to repress radicalism for fear that it might jeopardize relations with the United States can be seen most clearly in the decision to refuse to seat the Democratic Alliance Congressmen elected in 1946, which enabled Manuel Roxas to ram the "parity amendment" through Congress and thus preserve rehabilitation aid from the United States; Ronald King Edgerton, "The Politics of Reconstruction in the Philippines: 1945-1948" (Ph.D. diss., University of Michigan, 1975), 356-67 and passim; Shalom, *United States and the Philippines: Neocolonialism*, 51-59.

24. Wurfel, "Problems of Decolonization," 149-55.

25. Renato Constantino, "The Miseducation of the Filipino," in Renato Constantino, *The Filipinos in the Philippines and Other Essays* (1966; reprint, Quezon City: Malaya Books, 1971), 39-65; see also "Our Captive Minds," in ibid., 66-80. Perhaps the most notorious examples of Americans who simultaneously supported their Filipino friends and suppressed their Filipino enemies are Colonel Harry Hill Bandholtz of the Philippine Constabulary, patron of Quezon and pursuer of Sakay, and Colonel Edwin Geary Lansdale of the CIA, patron of Magsaysay and pursuer of the Huks.

26. Maria Cristina Blanc Szanton, *A Right to Survive: Subsistence Marketing in a Lowland Philippine Town* (University Park: Pennsylvania State University Press, 1972); Ogden Ellery Edwards (of Peele, Hubbell & Co.) to George Henry Peirce (of the same), 8 May 1864, Peirce Family Papers, Stanford University Libraries.

27. Two examples of such pioneering works, both valuable within their limits, are Lewis E. Gleeck, Jr., *American Business and Philippine Economic Development* (Manila: Carmelo & Bauermann, 1975), and Maria Teresa Colayco, *The Ropemakers: The Story of Manila Cordage Company* (Manila: n.p., 1975). A potential upswing in business history is suggested not only by the series of colloquia at the University of Michigan at which the papers in this volume were originally given, but also by a panel on "Philippine Business History" at the First International Philippine Studies Conference, Kalamazoo, 29 May - 1 June 1980.

28. Legarda, "Foreign Trade," 361-62.

29. Benito Fernandez Legarda, "American Entrepreneurs in the 19th Century Philippines" *Bulletin of the American Historical Collection* [Manila] 1, no. 1 (June 1972), 25-52 (article first published in 1957); Norman G. Owen, "Americans in the Abaca Trade: Peele, Hubbell & Co., 1856-1875," forthcoming.

30. Richard Dalton Tucker to Peirce, 21 Apr. 1868, Peirce Family Papers.

31. Owen, "Americans in the Abaca Trade."

32. Gleeck, *American Business*, provides an introduction to these and other firms; see also Morton J. Netzorg, "A View From the Pasig," *Bulletin of the American Historical Collection* 9 (Jan.-Mar. 1981):6-30, on his experiences with Lusteveco in the 1920s, and Edilberto C. de Jesús, "John Haussermann and Benguet

Mining Company," an unpublished paper from the 1980 Kalamazoo conference. The *American Chamber of Commerce Journal*, now the *AmCham Journal*, has been the voice of the American merchant community in Manila for over half a century.

33. Actually, the first such "multinationals" in the Philippines were probably the Chartered Bank of India, Australia & China and the Hongkong & Shanghai Bank, which opened branches in Manila in 1872 and 1875, respectively, but both seem to have confined themselves to banking and did not engage directly in either industry or trade. See Compton Mackenzie, *Realms of Silver: One Hundred Years of Banking in the East* (London: Routledge & Kegan Paul, 1954); and Maurice Collis, *Wayfoong: The Hongkong and Shanghai Banking Corporation* (London: Faber & Faber, 1965).

34. U.S. Department of Commerce and Labor, Bureau of Corporations, *The International Harvester Co.: March 3, 1913* (Washington, D.C.: Government Printing Office, 1913), 1-30, 149-50, 166; "Statement of Hemp Exports, Fiscal Year 1911," U.S. National Archives, Bureau of Insular Affairs, Record Group 350, entry 845-123.

35. James H. Blount, *The American Occupation of the Philippines, 1898-1912* (1912; reprint, Quezon City: Malaya Books, 1968), 604-22; Pomeroy, *American Neo-Colonialism*, 175-77. The annual *Report of the Philippine Commission* regularly included a request for repeal of this legislation. See also the writings of such colonial officials as W. Cameron Forbes and Charles Burke Elliott. Dean C. Worcester, as usual, ran counter to his colleagues.

36. Theobald Diehl (Special Commissioner, Bureau of Customs, Philippines) to Clarence R. Edwards (Chief, U.S. Bureau of Insular Affairs), 8 Aug. 1911, U.S. National Archives, Bureau of Insular Affairs,

Record Group 350, entry 845-117; Blount, *American Occupation*, 611-12; Hugo H. Miller, assisted by Charles H. Storms, *Economic Conditions in the Philippines* (Boston: Ginn & Co., 1913), 73-76; Keith Hartman, "The Henequen Empire in Yucatan: 1870-1910" (Master's thesis, University of Iowa, 1966), 194-98, 214-15.

37. Irvine H. Anderson, Jr., *The Standard-Vacuum Oil Company and United States East Asian Policy, 1933-1941* (Princeton: Princeton University Press, 1975), 202-220; Gleeck, *American Business*, 15-20; *The Petroleum Almanac* (New York: National Industrial Conference Board, 1946), 342-46; *Moody's Manual, 1941*; Richard Hooley and Vernon W. Ruttan, "The Philippines," in *Agricultural Development in Asia*, ed. R. T. Shand (Berkeley: University of California Press, 1969), 215-17.

38. Harold C. Livesay, "The Ford Motor Company in the Philippines," seminar presentation, University of Michigan, 30 Nov. 1979; Livesay to author, 9 May 1980.

39. Anderson, *Standard Vacuum*, 214; Jenkins, *American Economic Policy*, 42-51; Hartendorp, *History of Industry*, 153-62; Abaya, *Betrayal*, 200-201; Gleeck, *American Business*, 18, 106-10.

40. *Philippine Liberation Courier*, 23 Feb. 1979; *Philippine Times*, 17-23 Mar. 1979; Livesay, "The Ford Motor Company." Allegations of corruption also surrounded the Westinghouse contract for a nuclear reactor in the Philippines; see *Philippine Times*, 31 Jan. 1978ff., and *Philippine Liberation Courier*, 10 Feb. 1978ff., which reprint or summarize major wire service reports.

41. Such restrictions have been imposed not only by the Republic of the Philippines (particularly in the late 1950s and 1960s), but also by Spain (in the 1890s) and Japan (in the 1940s), each favoring its own interests over those of foreign rivals. Had any of these efforts

been longer-lived, the course of Philippine-American relations might have been very different.

42. Jim Morrell, "Aid to the Philippines: Who Benefits?," *International Policy Report* 5 (October 1979):1-16; *Philippine Liberation Courier*, 20 Mar. 1980. For an effort to look at levels of living in one region over the last 150 years of colonialism, see Owen, *Prosperity Without Progress*. Shalom, *United States and the Philippines: Neocolonialism*, 145-60, ably summarizes "The Human Costs of Neocolonialism" in the Philippines.

43. We lack sufficient reliable data to study with any precision the result of the comparably disproportionate relationship between the Soviet Union and Cuba since 1959, but it should be interesting, in time, to examine the factor of magnitude in this noncapitalist context. Certainly there are preliminary signs that it is not entirely healthy for the Cubans; whenever Moscow gets a cold, Havana sneezes.

3 1158 00987 0469

UNIVERSITY OF CALIFORNIA LIBRARY
Los Angeles
This book is DUE on the last date stamped below.

RECD LD-URL
MAY 28 1985
RECD LD-URL
JUN 07 1985
RECD LD-URL
JAN 2 1986
DEC 04 2008
JUL 9 1986
RECD LD-URL
JUL 22 1986
LD-URL
JUN 14 1988

QL APR 19 1989
QL JAN 21 1991
OCT 07 199
JUL 20 198
MAR 2 2002